BNY MELLON

Alcentra Limited

Pillar 3 Disclosure

December 31, 2019

alcentra.com

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Executive summary

1 Article 431 CRR - Scope of disclosure requirements

1.1 Disclosure policy

This document comprises the Alcentra Limited ('Alcentra' or the 'Company') Pillar 3 disclosures on capital and risk management as at 31 December 2019. 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. When assessing the appropriateness of these disclosures in the application of Article 431(3) in the CRR, Alcentra has ensured adherence to the following principles of:

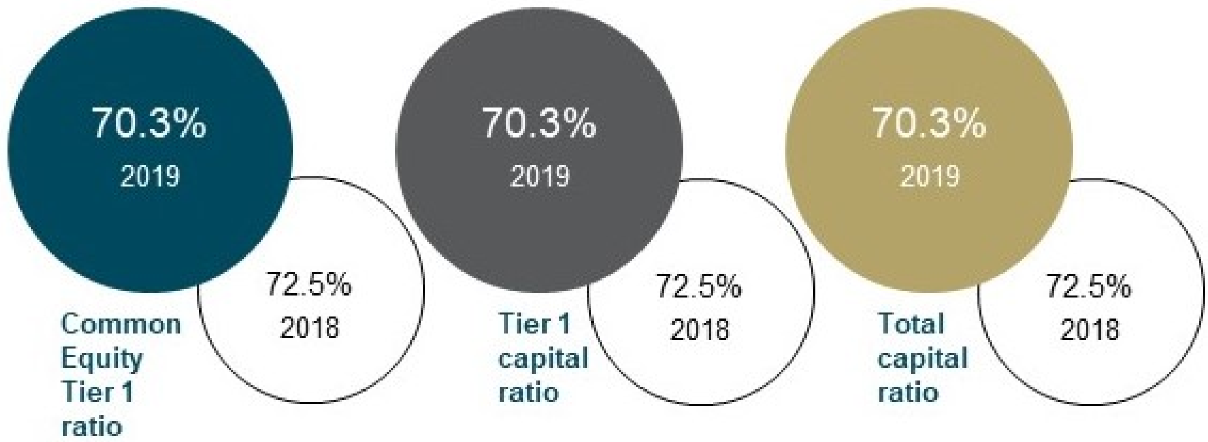
- Clarity
- Meaningfulness
- Consistency over time
- Comparability across institutions

The Basel Committee on Banking Supervision ('BCBS') requires these disclosures to be published at the highest level of consolidation. Alcentra has adopted this approach with information presented at a fully consolidated level.

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, risks and details about the management of those risks, and for no other purpose. These disclosures do not constitute any form of financial statement of 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.

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



CET1 ratio	=	CET1 capital / Pillar 1 RWAs
Tier 1 ratio	=	Tier 1 capital / Pillar 1 RWAs
Total capital ratio	=	Total capital / Pillar 1 RWAs

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, 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, 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:

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 Alcentra is exposed to, but are not covered above, are also discussed in Appendix 1.

1.4 Article 432 CRR - 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 Article 433/434 CRR - Frequency and means of disclosure

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

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

Disclosures are published on The Bank of New York Mellon Corporation group and Alcentra Limited's websites which can be accessed using the links below:

BNY Mellon Investor Relations - Pillar 3

Alcentra - regulatory information

1.6 Governance: approval and publication

Pursuant to the Alcentra Pillar 3 disclosure policy, these disclosures were approved for publication by Alcentra Limited's Board on 15 September 2020. The Board approved the adequacy of Alcentra's risk management arrangements, providing assurance that the risk management systems put in place are adequate with regard to Alcentra's profile and strategy.

1.7 Key 2019 and future events

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

During 2020, the Company will continue to develop and launch new products within its six core strategies to clients.

The strategic focus of the Company is to develop the business to maximise shareholders' value. This will principally be done through the pursuit of organic growth of operations. In the forthcoming year, the directors expect to increase revenues by launching new funds and increasing assets under management within existing funds.

Brexit

The UK formally left the European Union (“EU”) on 31 January 2020 and will cease to be a member state. The departure will lead to a transition period, lasting until the end of 2020, which effectively keeps the UK in the EU from the perspective of companies and individuals and their respective rights and obligations.

As part of the BNY Mellon Brexit Programme, the Company continues to monitor the UK’s withdrawal from the European Union and is proactively engaging with clients on their key concerns and considerations. The programme’s analysis and planning has taken into account a range of potential economic scenarios and impact on the Company’s operating model, aligned with regulatory and supervisory guidance which has been communicated industry-wide. No significant impact is expected on the Company’s business activities at the moment.

Specific risks to the Company’s business include the impact of potential regulatory changes and retention of AUM by the Company. By working closely with regulators, and establishing a full Communications and Client Engagement work stream as part of the wider BNY Mellon Brexit programme, a proactive approach has been taken to mitigate these risks wherever possible, and to support clients with their post-Brexit transition.

Other risks due to the implications of Brexit include the ability to recruit and retain qualified employees due to the impact on the freedom of movement of labour from the EU, potential changes to the legal framework in which the Company operates and the impact of potential adverse movements in financial market values on the Company’s financial performance and liquidity. Liquidity of all Sub-Funds is constantly reviewed to ensure portfolios are being managed in line with the redemption terms offered.

As Brexit negotiations and transition progresses, BNY Mellon’s Brexit Programme continues to monitor new developments and any regulatory implications that may impact the Company’s services.

Coronavirus ("COVID-19")

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various governments and institutions around the world responding in different ways to address the outbreak. This has led to an increased level of uncertainty in the financial markets which has triggered volatility in interest rates, foreign exchange rates and equity prices among others. Whereas the quantification of the impact on the Company is uncertain, management has considered the below specific factors that could affect the Company:

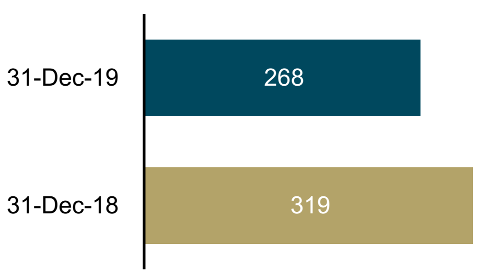
- Client activity and volume: The Company could face a potential reduction in client activity driven by a likely risk averse customer behaviour leading to a reduction in new business and funds under management;
- The reduction in client activity could lead to a fall in revenue triggered by a reduction in the AUM, although this would also lead to a decrease in variable transfer agency/ fund accounting costs and rebate to fund investors;
- Liquidity: The Company continues to closely monitor the impact of market volatility on its balance sheet. The Company currently has sufficient liquidity in excess of its regulatory requirement to absorb any short-term losses;
- Market fluctuations: Due to the uncertainty, the Company is likely to be exposed to volatility of market rates or prices such as interest rates, foreign exchange rates and investment prices. Global credit markets are likely to fall which could impact on the Company's revenue derived from the different funds it manages; and
- Going concern consideration: Management has performed an assessment to determine whether there are any material uncertainties arising due to the pandemic that could cast significant doubt on the ability of the Company to continue as a going concern. This assessment is disclosed in note 1.5 'Going concern' of the financial statements and focuses on the Company's financial and operational resilience to continue in operational existence for the foreseeable future (for a period of at least twelve months after the date that the financial statements are signed). Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Company continues to carefully monitor and mitigate the risk on an ongoing basis in order to minimise exposure while maintaining a robust balance sheet and sufficient headroom above regulatory capital requirements.

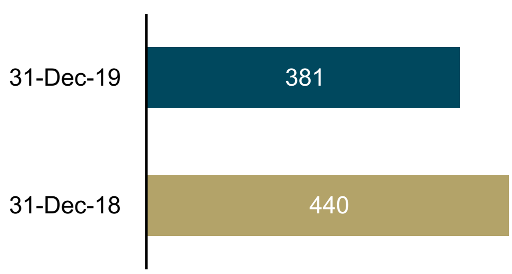
1.8 Key metrics

The following risk metrics reflect Alcentra's risk profile:

CET1 capital (£m)

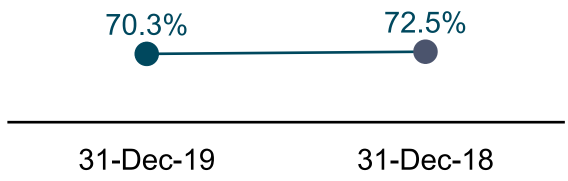


Risk-weighted assets (£m)



Alcentra Limited

CET1 ratio



Total capital ratio

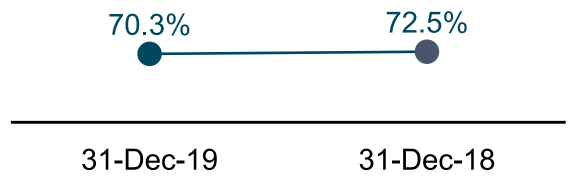
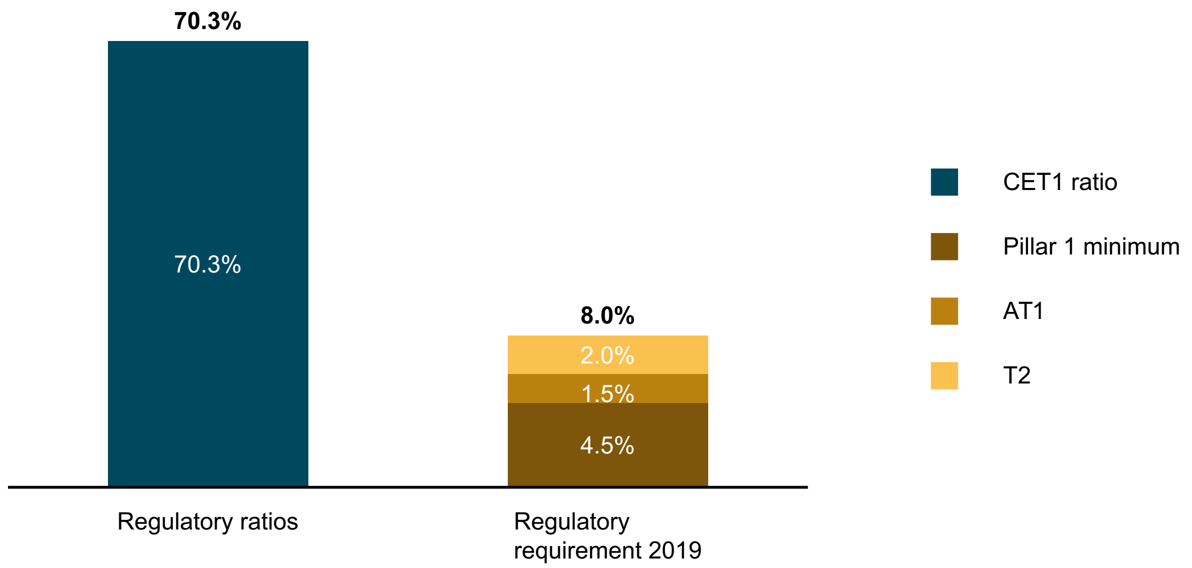


Table 1: KM1 - Key metrics

Own Funds	31-Dec-19	31-Dec-18
Available capital (£m)		
Common Equity Tier 1 ('CET1') capital	**268**	319
Tier 1 capital	**268**	319
Total capital	**268**	319
Risk-weighted assets (£m)		
Total risk-weighted assets ('RWA')	**381**	440
Risk-based capital ratios as a percentage of RWA		
CET1 ratio	**70.3%**	72.5%
Tier 1 ratio	**70.3%**	72.5%
Total capital ratio	**70.3%**	72.5%

Note: Capital as stated is after the inclusion of audited profit/loss for the year. RWAs include the latest operational risk RWAs, updated in line with the audited results for the year.

2019 consolidated regulatory capital versus regulatory requirement



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 Article 436 CRR - Scope of application

Alcentra Limited is the only entity within Alcentra Asset Management Limited authorised and regulated by the Financial Conduct Authority ('FCA'). It is a subsidiary of Alcentra Asset Management Limited, which is wholly owned by BNY Alcentra Group Holdings Inc., a Delaware (USA) company, ('Alcentra Group Holdings'), owned 100% by Bank of New York Mellon Corporation ('BNY Mellon C') and subsidiary undertakings.

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 of 31 December 2019, BNY Mellon had $37.1 trillion in assets under custody and/or administration, and $1.9 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. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE: BK). Additional information is available on *www.bnymellon.com*. Follow us on Twitter *@BNYMellon* or visit our newsroom at *www.bnymellon.com/newsroom* for the latest company news.

Alcentra Limited is an asset management business focused on sub-investment grade debt capital markets in Europe. As at 31 December 2019 the company manages 47 funds, including 13 Collateralised Loan Obligations ('CLOs'), 12 Direct Lending and Mezzanine Funds, 9 Open-Ended and Close-Ended Credit Funds, 1 Listed Fund and 12 Separately Managed Accounts, with approximately €18.9 billion AuM.

Alcentra Limited has regulatory permissions as an investment advisor and discretionary fund manager. Alcentra Limited 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 Limited reports on an individual basis.

Alcentra Limited 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 Limited works with investors around the world to help them make the most of the market opportunities. Alcentra Limited'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 Limited 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 Limited's investment philosophy are a combination of top down investment strategy analysis, credit analysis 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 legal entity structure of Alcentra Limited below.

Figure 1: Alcentra simplified legal entity structure at 31 December 2019

Basis of consolidation

Entity name	Consolidation basis	Services provided
Alcentra Asset Management Limited ('AAML')	N/A	A holding company for a group engaged in fund management
Alcentra Limited	Fully consolidated	An asset management business focused on sub-investment grade debt capital markets in Europe

1.10 Core business lines

Alcentra's core strategy is focused on retaining its market position as one of the leading investment management companies in the sub-investment grade asset market through a strategy of organic growth of its existing client base and product offering. In order to achieve this strategy the business aims to:

- defend its leading CLO franchise by launching new CLOs in Europe to cover the amortisation/call of older vintage CLOs;
- continue to grow AuM in the open ended vehicles: European Loan Funds, Special Situations and Structured Credit strategies;
- grow the Direct Lending business with the launching of additional closed end funds and deployment of capital in existing funds; and
- build on the Multi-Strategy Credit success, offering all of the above global solutions in a single strategy to investors.

Alcentra Limited's clients are the funds themselves, with the underlying investors typically being institutional or clients, such as pension funds and insurance companies, or professional investors. CLO fund notes, issued to investors by the fund itself, can be traded in the secondary market and therefore Alcentra Limited is not privy to who the end-investors are. The CLO funds made up over 28.68% of Alcentra's AuM as of 31 December 2019.

Alcentra Limited managed funds typically invest in the following asset classes:

- Leveraged or Secured Loans;
- Structured Credit;
- Direct Lending;
- High Yield Bonds; and
- Special Situations.

On behalf of the funds it manages Alcentra Limited invests in these assets classes through different investment vehicles, the key ones being:

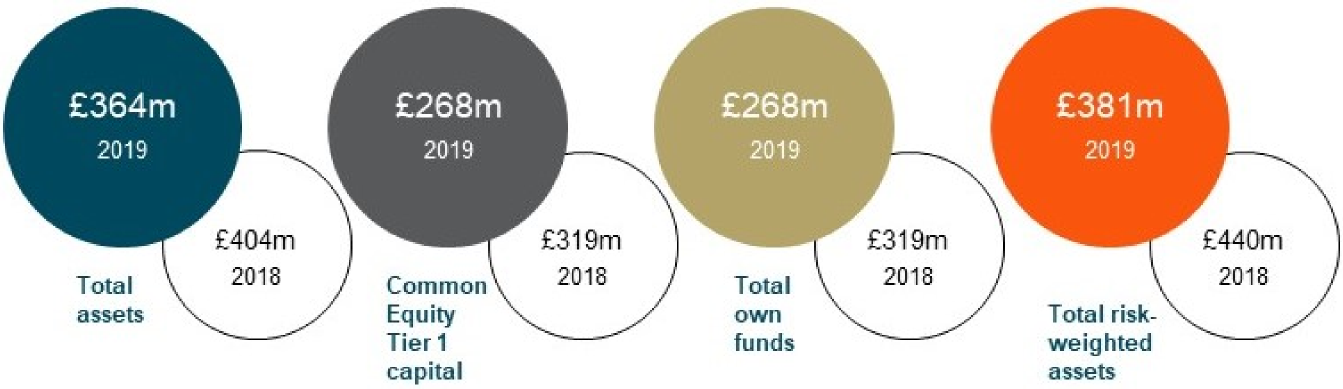
- Collateralised Loan Obligations;
- Direct Lending Funds;
- Total Return / Credit Funds;
- Separately Managed Accounts; and
- Multi Strategy Credit Funds.

1.10.1 Risk retention

During 2018 Alcentra launched a third party risk retention fund (Viaduct) which now acts as originator for the firm’s new CLOs thus removing the requirement for Alcentra to act as originator and the requirement for Alcentra to use its own capital going forward.

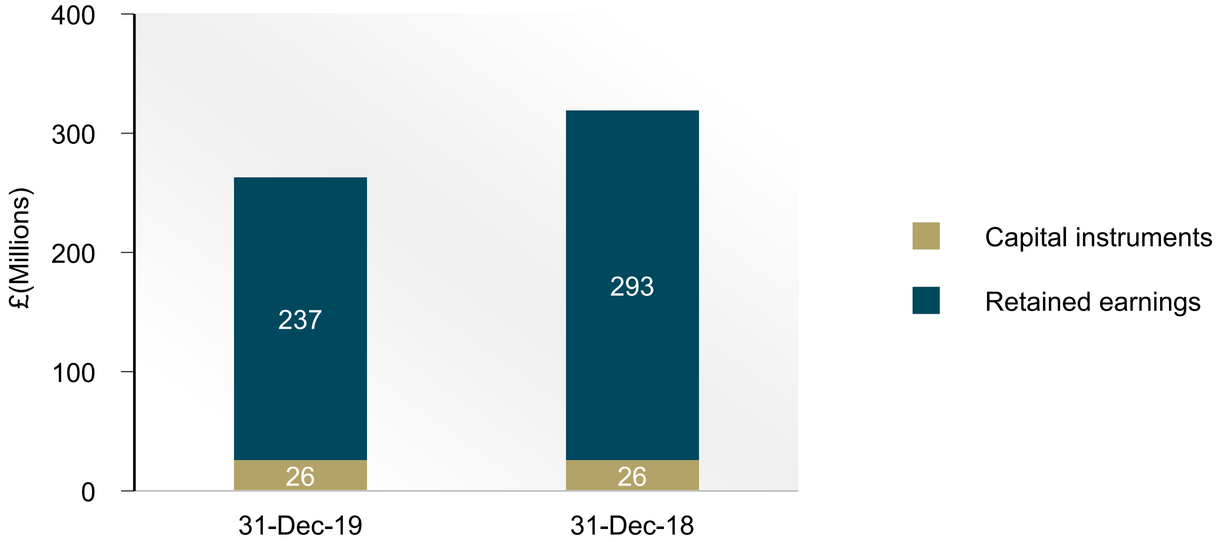
Capital

2 Article 437 CRR - Own funds



Composition of regulatory capital

This graph shows the composition of regulatory capital including all regulatory adjustments at 31 December 2019 (see Table 5).



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

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

- **Common equity tier 1 capital** which is the highest quality form of regulatory capital under Basel III comprising common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments
- **Tier 2 capital** which is a component of regulatory capital under Basel III, mainly comprising qualifying subordinated loan capital, and eligible collective impairment allowances

Table 2: Reconciliation of regulatory own funds

This table shows a reconciliation of Alcentra's balance sheets 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 2019 (£m)	Financial statements balance sheet	Regulatory adjustments	Regulatory balance sheet
Assets			
Other demand deposits	108	(2)	106
Fixed asset investments	196	—	196
Debtors	13	38	51
Intangible assets	8	—	8
Amounts due from group undertakings	35	(35)	—
Other assets (inc derivatives)	4	(3)	1
Total assets	**364**	**(2)**	**362**

31 December 2019 (£m)	Financial statements balance sheet	Regulatory adjustments	Regulatory balance sheet
Liabilities			
Deposits by banks	44	—	44
Creditors falling due more than one year	14	(14)	—
Other liabilities	15	13	28
Accruals and deferred income	23	(3)	20
Total liabilities	**96**	**(4)**	**92**
Shareholders' equity			
Share capital	26	—	26
Other reserves	—	6	6
Profit and loss account*	242	(4)	238
Equity	**268**	**2**	**270**
Equity and liabilities	**364**	**(2)**	**362**

* includes 2019 year-end profit.

Table 3: EU LI1 - Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

			Carrying values of items				
At 31 December 2019 (£m)	Carrying amount	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash in hand and on demand balances at central banks	94	94	94	—	—	94	—
Debtors	13	13	13	5	—	13	—
Current Asset Investments	14	14	14	—	—	14	—
Fixed asset investments	196	196	—	—	196	196	—
Other assets	47	47	47	—	—	47	—
TOTAL ASSETS	**364**	**364**	**168**	**5**	**196**	**364**	**—**
Deposits by Bank	44	44	—	—	—	44	—
Creditors - Other creditors	52	52	—	—	—	52	—
TOTAL LIABILITIES	**96**	**96**	**—**	**—**	**—**	**96**	**—**

Table 4: EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Items subject to			
At 31 December 2019 (£m)	Total	the credit risk framework	the CCR framework	the securitisation framework	the market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	733	168	5	196	364
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	96	—	—	—	96
Total net amount under the regulatory scope of consolidation	637	168	5	196	268
Exposure amounts considered for regulatory purposes	637	168	5	196	268

Table 5: CC1 - Composition of regulatory capital

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

Own funds	31-Dec-19	31-Dec-18
Common Equity Tier 1 ('CET1')		
Capital instruments	**26**	26
Retained earnings	**237**	293
Reserves and others	**5**	—
CET1 adjustments	**—**	—
Total CET1	**268**	**319**
Additional tier 1 capital ('AT1')		
Total AT1	**—**	**—**
Total tier 1 ('CET1 + AT1')	**268**	**319**
Tier 2 capital ('T2')		
Total tier 2 capital	**—**	**—**
Total own funds	**268**	**319**

Table 6: TLAC1 - Transitional own funds

The table below shows the transitional own funds disclosure.

Equity instruments, reserves and regulatory adjustments at 31 December 2019 (£m)	Amount at disclosure date
CET1 capital: Instruments and reserves	
Capital instruments and the related share premium accounts	26
of which: ordinary shares	26
Retained earnings	237

Equity instruments, reserves and regulatory adjustments at 31 December 2019 (£m)	Amount at disclosure date
Minority Interests (amount allowed in consolidated CET1)	5
CET1 capital before regulatory adjustments	**268**
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	—
Total regulatory adjustments to CET1	**—**
CET1 capital	**268**
AT1 capital	**—**
Tier 1 capital	**268**
Tier 2 ('T2') capital: Instruments and provisions	
Total regulatory adjustments to T2 capital	**—**
T2 capital	**—**
Total capital	**268**
Total risk-weighted assets	**381**
Capital ratios and buffers	
CET1 (as a percentage of risk exposure amount)	70.3%
T1 (as a percentage of risk exposure amount)	70.3%
Total capital (as a percentage of risk exposure amount)	70.3%
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)	—

Table 7: CCA - Main features of regulatory capital instruments

This table provides a description of the main features of the regulatory capital instruments issued by Alcentra as at 31 December 2019.

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	£26 million
Nominal amount of instrument	£26 million
Issue price	£1
Accounting classification	Shareholders' equity

Capital instruments main features [1]	Amount
Original date of issuance	12-Aug-94
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	No
Coupons/dividends	
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	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

[1]: this table is based on Annex II of ITS Regulation (EU) No. 1423/2013. Some ‘not applicable’ lines have been omitted.

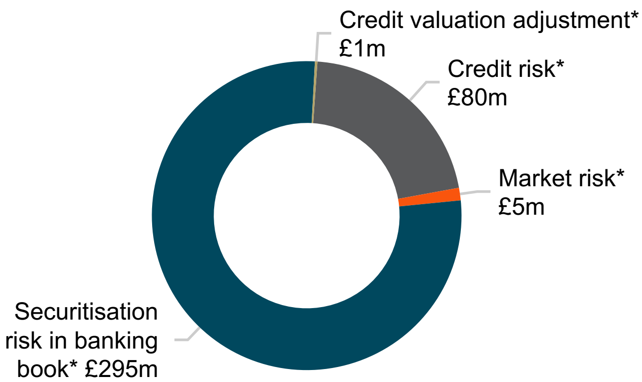
Capital and reserves

Allotted, called up and fully paid	2019 £000	2018 £000
1,700,002 ordinary shares of £1 each ordinary shares redesignated to 80,000,000		
Ordinary shares of £0.32 each	25,659	25,659

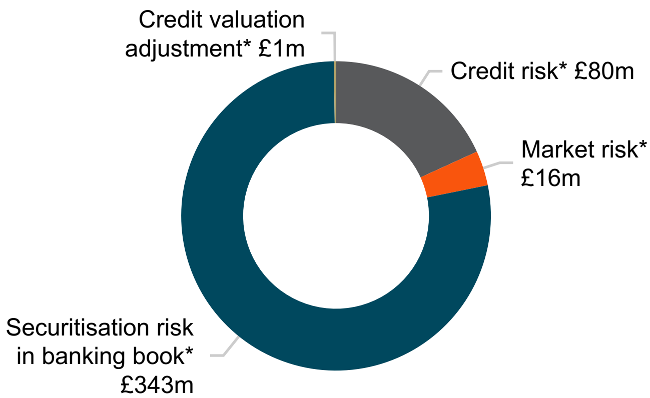
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

3 Article 438 CRR - Capital requirements

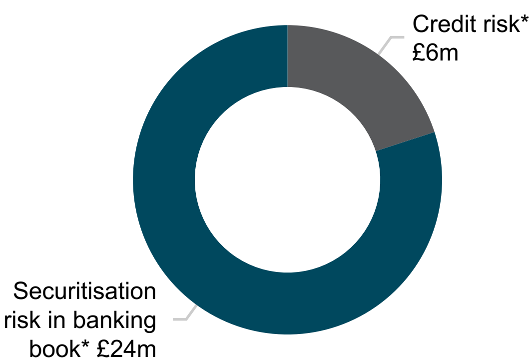
Risk exposure by risk type at 31 December 2019



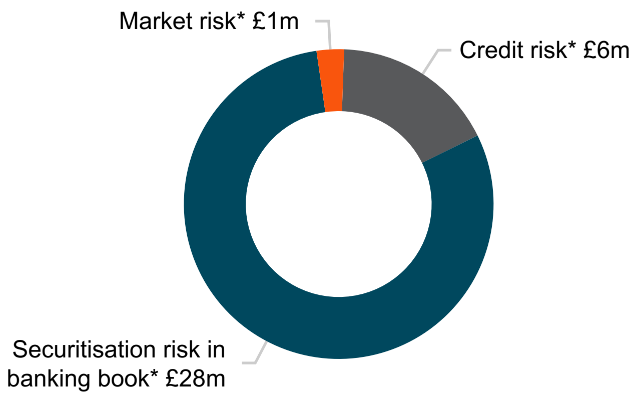
Risk exposure by risk type at 31 December 2018



Capital requirements by risk type at 31 December 2019



Capital requirements by risk type at 31 December 2018



* Standardised approach

Alcentra's capital plan aims to ensure that an appropriate amount of capital is held to support its business model, allowing for prudent management of the business, given a range of plausible but severe stress scenarios. Potential capital shortfalls are identified over a 3 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. The capital plan is subject to executive and Board approval.

3.1 Calculating capital requirements

Alcentra has an ICAAP which defines the risks that Alcentra is exposed to, and sets out the associated capital plan which aims to ensure that Alcentra holds an appropriate amount of capital to support its business model, through the economic cycle and given a range of plausible but severe stress scenarios.

Alcentra is classified for regulatory and capital purposes as a limited licence firm. Therefore in accordance with FCA requirement, Alcentra calculates the Pillar I capital resource requirements as the larger of Fixed Overhead Requirement ('FOR') and the sum of credit risk and market risk capital resource requirements. Alcentra's FOR is significantly less than the sum of credit and market risk requirements.

As at 31 December 2019, the FOR (including post audit adjustments) for Alcentra was £11.8 million (31 December 2018: £7.7 million). The FOR has been calculated as equal to one quarter of the fixed expenditure of the company less allowable deductions.

Table 8: EU OV1 - Overview of RWAs

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

	Risk exposure amount		Capital requirements	
Type of risk (£m)	**31-Dec-19**	**31-Dec-18**	**31-Dec-19**	**31-Dec-18**
Credit risk*	**80**	80	**6**	6
Securitisation risk in banking book*	**295**	343	**24**	28
Market risk*	**5**	16	**—**	1
of which: foreign exchange position risk*	**5**	16	**—**	1
Credit valuation adjustment*	**1**	1	**—**	—
Total	**381**	**440**	**30**	**35**
Total capital			**268**	**319**
Surplus capital			**238**	284

*Standardised approach

Alcentra met or exceeded 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 Article 435 CRR - Risk management objectives and policies

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 the Corporation level as an imperative. Clients and market participants need to have confidence that the Corporation's many legal entities will remain strong and continue to deliver operational excellence and maintain an uninterrupted service. 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.

Whilst BNY Mellon assumes less balance sheet risk than most financial services companies, it does assume a significant amount of operational risk as a result of its business model. As a consequence, BNY Mellon has developed an enterprise risk management program that is designed to ensure that:

- risk limits are in place to govern its risk-taking activities across all businesses and risk types;
- risk appetite principles are incorporated into its strategic decision making processes;
- monitoring and reporting of key risk metrics to senior management and the Board takes place; and
- there is a capital planning process which incorporates both economic capital modelling and a stress testing programme.

The Alcentra Board has adopted a conservative risk appetite to maintain a strong capital position and balance sheet throughout all market cycles with strong liquidity, superior asset quality, ready access to external funding sources at competitive rates, and a robust capital structure whilst delivering operational excellence to meet stakeholders' expectations.

Risk statement

As a global investment management company, risk is a fundamental characteristic of the Alcentra business and is inherent in every transaction undertaken. As such, the Company's approach to risk taking and how it considers risk relative to reward directly impacts its success. Therefore Alcentra has established limits on the level and nature of the risk that it is willing and able to assume in achieving its strategic objectives and business plans.

The Company's Risk Appetite Statement serves this purpose and guides its decision making processes, including the manner by which it pursues its business strategy and the method by which it manages risk and determines whether the risk position is within appetite.

Alcentra is a source of innovative investment solutions for its clients, where key risks faced are operational, inclusive of the failure to meet fiduciary obligations. Additionally, strategic risk may arise from the failure to remain relevant and competitive and some credit risk and market risk may arise from exposure to foreign exchange or seed capital investments. The Board recognises that reputational risk could arise from shortcomings in any of these areas.

Alcentra is committed to ensuring all business activities are conducted with a clear understanding of the risks, to maintaining a robust risk management framework, delivering excellence, ensuring transparent disclosure and treating customers fairly, and to meet the expectations of major stakeholders, including clients, shareholders, employees and regulators. The Board expects a culture of honesty and openness from all staff with a bias to escalation in case of doubt.

Commensurate with the BNY Mellon organisational structure and the three lines of defence model, the identification, assessment and ongoing management of risk is undertaken primarily within Alcentra. In aggregate, Alcentra's risk tolerances are compatible with the BNY Mellon Investment Management Risk Appetite Statement. The business model provides inherent diversification such that for certain risks, individual business may have higher tolerances; where this is the case, such risks will be monitored in the aggregate as well as at the individual business level.

4.1 Board of Directors

BNY Mellon Corporation Risk Management is coordinated at regional, legal entity and line of business levels. A formal governance hierarchy is in place to ensure effective escalation of 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. 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 Global Risk and Compliance Committee meets on a monthly basis and comprises Alcentra Directors, several senior members of staff at Alcentra and regional representatives from BNY Mellon 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 Global Board Risk Committee.

The Global Board Risk Committee meets at least quarterly and comprises Alcentra Directors and several senior members of staff at Alcentra. It assist the Board of Alcentra in its oversight of risk management, compliance and internal audit, as well as compliance with statutory and regulatory information.

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

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') and the Head of Risk and Compliance. 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; and
- 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:

Board member	Function at Alcentra	Name of the other company in which an external function is exercised	Location (country)	Type of activities	Listed company (Y/N)	External mandate (title)	Capital connection with Alcentra (Y/N)
D Forbes-Nixon	Chief Executive Officer	Blagdon House Limited	UK	Development of building projects	N	Director	N
		DFN Charitable Foundation	UK	Education	N	Director	N
		DFN Events Limited	UK	Support activities to performing arts	N	Director	N
		DFN Project Search	UK	Education	N	Director	N
		New Malden House Long Leasehold Limited	UK	Other letting and operating of own or leased real estate	N	Director	N
		Stepping Stones School Hindhead	UK	Education	N	Director	N
		Oakfield TQ Limited	UK	Dormant Company	N	Director	N
D Fabian	President & Chief Operating Officer						

Board member	Function at Alcentra	Name of the other company in which an external function is exercised	Location (country)	Type of activities	Listed company (Y/N)	External mandate (title)	Capital connection with Alcentra (Y/N)
G Brisk	Chair of Alcentra Limited and Head of Governance, BNY Mellon IM	The Fordham Trust	UK	Activities of religious organisations	N	Director	N
		The St Nicholas Cole Abbey Centre For Workplace Ministry Limited	UK	Activities of religious organisations	N	Director	N
		Newton Management Limited	UK	Fund management	N	Director	N
		Distaff Lane Coffee Limited	UK	Unlicensed restaurants and cafes	N	Director	N
		Insight Investment International Limited	UK	Financial intermediation	N	Director	N
A Eilon	Non-executive Director	Tidal Electric Limited	UK	Production of electricity	N	Director	N
		Art-I-Check Ltd	UK	Business and domestic software development	N	Non-executive Director	N
		Ambury Bath Limited	UK	Building projects & letting and operating real estate	N	Director	N
		Ambury Bath Lettings Limited	UK	Building projects & letting and operating real estate	N	Director	N
		L&AD Ltd	UK	Activities of head offices	N	Director	N
		L&AD2000 Ltd	UK	Activities of head offices	N	Director	N
		L&AD2001 Ltd	UK	Activities of head offices	N	Director	N
		L&AD2002 Ltd	UK	Activities of head offices	N	Director	N
		Eilon & Associates Limited	UK	Business support services	N	Director	N
		Ullman Offshore Lagoon (Solway) Limited	UK	Production of electricity	N	Director	N
M Harris*	Director	Celtica Investments LLP	UK	Limited liability partnership	N	Member/ Partner	N
C McAnulty**	Non-executive Director	NORTHERN 2 VCT PLC	UK	Financial intermediation	N	Director	N

Board member	Function at Alcentra	Name of the other company in which an external function is exercised	Location (country)	Type of activities	Listed company (Y/N)	External mandate (title)	Capital connection with Alcentra (Y/N)
D Ford***	Non-executive Director	Oppilotech Limited	UK	Research and experimental development on natural sciences and engineering	N	Director	N
		Oxford Drug Design Limited	UK	Research and experimental development on natural sciences and engineering	N	Director	N
		SomaServe Limited	UK	Research and experimental development on natural sciences and engineering	N	Director	N
		BoobyBiome Limited	UK	Research and experimental development on natural sciences and engineering	N	Director	N
		New Atlantis Ventures Nominees Limited	UK	Activities of venture and development capital companies	N	Director	N
		New Atlantis Ventures Ltd	UK	Activities of venture and development capital companies	N	Director	N
		Arrowfield Capital Nominees Limited	UK	Activities of venture and development capital companies	N	Director	N

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.

*Appointed as a Director of Alcentra on 14 February 2019.
**Appointed as a Director of Alcentra on 26 September 2019.
***Appointed as a Director of Alcentra on 14 October 2019.

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 Global Head of Risk and Compliance also have the following reporting lines into BNY Mellon:

- David Forbes-Nixon, CEO, reports into Mitchell Harris, CEO 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; and
- Daniel Fabian, President & COO reports into Mitchell Harris, CEO of BNY Mellon Investment Management.

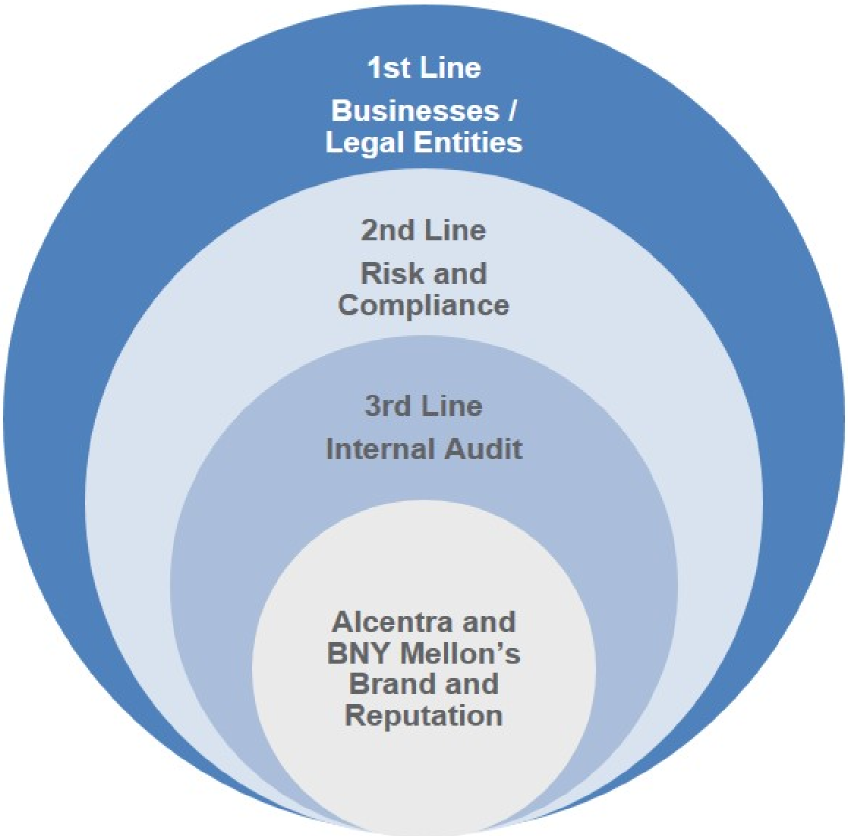
Although continually monitored, there have been no significant changes in the Company's risk forums and risk management operating practices and procedures.

4.2 Risk management framework

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. The third line of defence ('3LOD') is Internal Audit, which independently provides Alcentra Board and senior management with the assurance that the governance structures, risk management and internal controls in place are effective.

BNY Mellon Risk and Compliance policies and guidelines provide the framework for Alcentra's risk identification, internal controls, monitoring, reporting and escalation.

Figure 2: 'Three Lines of Defence' risk management model



Three Lines of Defence

1st Line: Business / Legal Entities

- Owns risks associated with activities
- Each employee understands and manages the risks inherent in their jobs
- Controls and sound business level policies are in place
- Operate within Alcentra Board-defined risk appetite (which aligns with BNY Mellon IM Risk Appetite Statements)
- Issues escalated in a timely manner via governance structure

2nd Line: Risk and Compliance

- Supports the business to successfully achieve its strategy by facilitating the identification, assessment and mitigation of risks
- Consistent corporate level policies and standards
- Issues escalated in a timely fashion
- Reporting to regional BNY Mellon operational risk teams facilitate additional oversight and challenge
- Local oversight of BNY Mellon policies, procedures and satisfying regulatory oversight requirements at the legal entity level
- Embedded Operational Risk and Compliance function

3rd Line: Internal Audit (BNY Mellon)

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

4.3 Risk appetite

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. 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 the Alcentra Global Risk & Compliance Committee, the Alcentra Global Board Risk Committee and the BNY Mellon 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.

4.4 Strategic and Emerging risk assessment

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 assessed on both an inherent and residual basis as 'High', 'Moderate', and 'Low'. The Strategic and Emerging Risk Assessment forms part of the reporting to risk committees.

4.5 Stress testing

Capital Stress testing is undertaken at Alcentra to monitor and quantify risk exposures and capital requirements to ascertain whether or not there are sufficient capital resources on a forward-looking basis. The process involves developing stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to Alcentra's risk profile and business activities. Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by Alcentra's risk management and Board as part of the ICAAP process (see section 4.7 below).

4.6 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.; and
- ensuring that processes, risks and controls are continually reassessed for appropriateness and completeness.

4.7 Internal Capital Adequacy Assessment Process

An Internal capital adequacy assessment process ('ICAAP') document is produced at least annually for Alcentra on a consolidated basis, including its subsidiaries. The process and document is owned by the Alcentra Board. The purpose of the ICAAP is to:

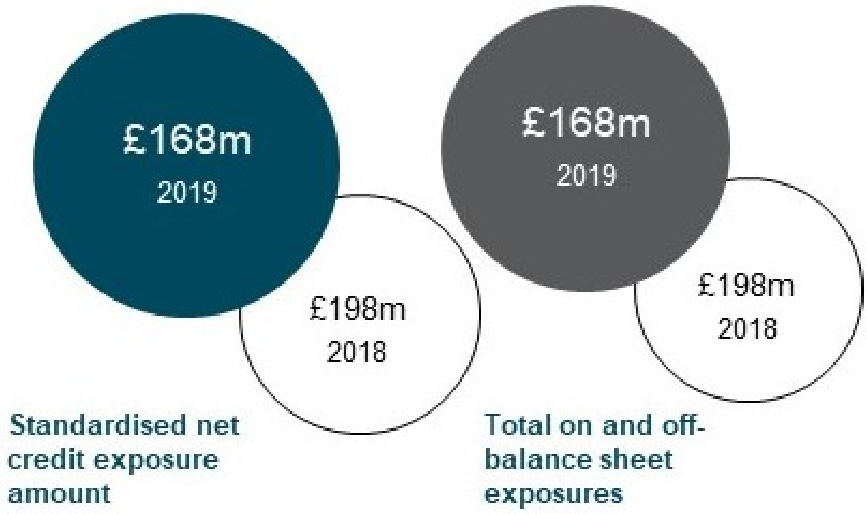
- ensure the ongoing assessment and monitoring of the Company's risks and the approaches used to mitigate those risks, such that they remain within the Risk Appetite established by the Board;
- determine the capital requirement for the residual risk exposure at the point when the assessment is made and also over the Company’s three-year planning horizon, both under baseline and internally assessed stressed conditions;
- document the capital adequacy assessment process both for internal stakeholders and for prudential supervisors;
- provide the necessary information so that senior management, including the Board, can make decisions about the amount of capital that is required and the approach to risk management;
- provide on-going assessment and monitoring of Alcentra’s capital risks such that they remain within the risk appetite established by the Board;
- determine how much capital is likely to be necessary to support those risks at the moment the assessment is made and also over the firm’s three-year planning horizon, both under baseline and stressed conditions; and
- provide the necessary information so that senior management and the Board can make decisions about the amount of capital that is required and the approach to risk management that should be adopted.

In addition to ensuring that there is sufficient capital to cover Economic Risk and to meet capital requirements under internally assessed stressed conditions, the Company's objective is also to maintain capital in excess of its Risk Appetite.

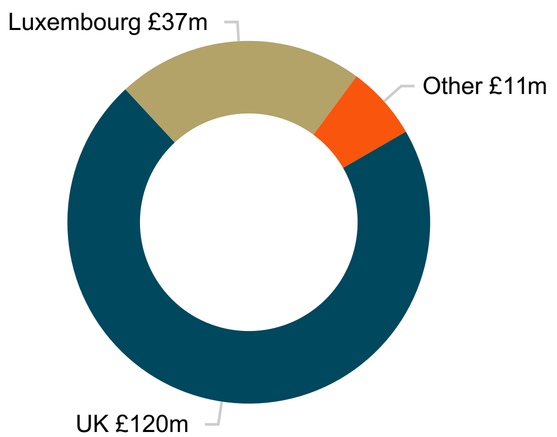
4.8 Recovery and resolution planning

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 2019 Resolution Plan, available on the FDIC website.

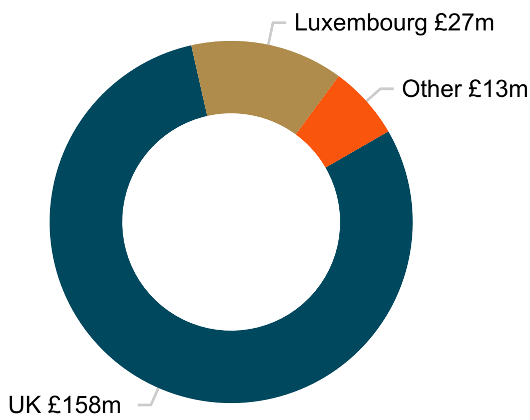
5 Article 442 CRR - Credit risk adjustments



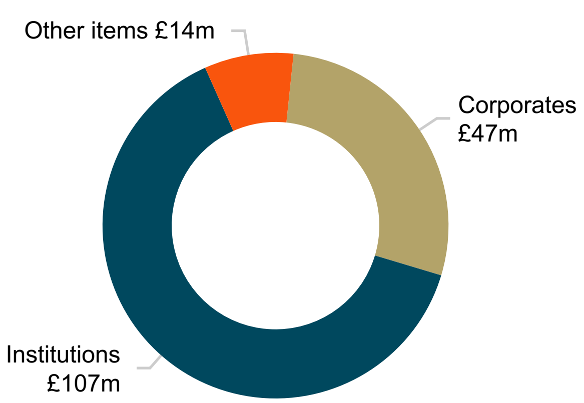
Standardised net credit exposure by country at 31 December 2019



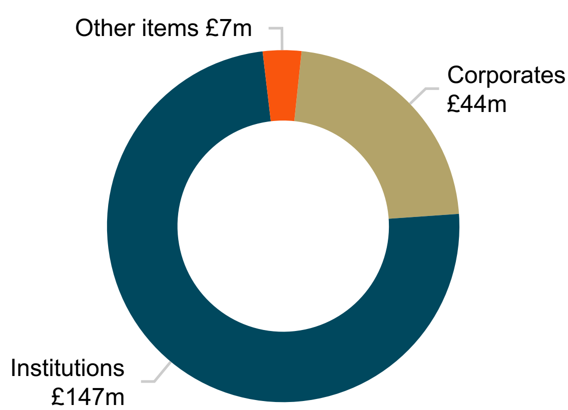
Standardised net credit exposure by country at 31 December 2018



Standardised net credit exposure by counterparty at 31 December 2019



Standardised net credit exposure by counterparty at 31 December 2018



5.1 Definition and identification

Credit risk is the risk of default from counterparties or clients for deposits, loans, commitments, securities and other assets where the realisation of the value of the asset is dependent on their ability to perform. As at 31 December 2019 the credit risk profile for Alcentra is limited to the risk of default from inter-company counterparties, management fees derived from the funds (clients) which Alcentra manages and the seed capital investments. The Company does not have a trading book.

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 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, as a result of 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

Alcentra's credit risk exposure is managed between Finance and Global Operations. New seed investments require an initial approval by the BNY Mellon Seed Capital Committee before the investments are made. The CLO investments are a vertical strip of the underlying notes.

The metrics supporting the management of credit risk are monitored on a monthly basis and reported to senior management. Throughout 2019, 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;

- **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 country location for the counterparty; and
- **Residual maturity** is defined as the period outstanding from the reporting date to the maturity or end date of an exposure.

Table 9: EU CRB-B - Total and average net amount of exposures

The following tables show the total and average credit risk exposure pre conversion factors by class using the standardised approach.

At 31 December 2019 (£m)	Net value at the end of the period	Average net value over the period
Corporates	47	67
Institutions	107	143
Other items	14	8
Total	**168**	**218**

Table 10: 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-19	31-Dec-18	31-Dec-19	31-Dec-18	31-Dec-19	31-Dec-18
20%	132	138	26	28	2	2
50%	12	12	6	6	—	—
100%	27	24	27	24	2	2
150%	—	2	—	2	—	—
350%	9	9	31	33	2	3
1,250%	16	20	204	250	16	20
Total	196	**205**	294	**343**	22	**27**

Table 11: EU CRB-C - Geographical breakdown of exposures

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

At 31 December 2019 (£m)	UK	Luxembourg	Other	Total
Corporates	—	37	10	47
Institutions	107	—	—	107
Other items	13	—	1	14
Total	**120**	**37**	**11**	**168**

At 31 December 2018 (£m)	UK	Luxembourg	Other	Total
Corporates	5	27	12	44
Institutions	147	—	—	147
Other items	6	—	1	7
Total	**158**	**27**	**13**	**198**

Table 12: EU CRB-D - Concentration of exposures by counterparty types

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

At 31 December 2019 (£m)	General governments	Credit institutions	Other financial corporations	Various balance sheet items	Total
Corporates	—	—	47	—	47
Institutions	—	107	—	—	107
Other items	—	—	—	14	14
Total	**—**	**107**	**47**	**14**	**168**

Table 13: EU CRB-E - Maturity of exposures

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

At 31 December 2019 (£m)	On demand	Less than 1 year	Less than 5 years	More than 5 years	Total
Corporates	—	47	—	—	47
Institutions	107	—	—	—	107
Other	—	2	4	8	14
Total	**107**	**49**	**4**	**8**	**168**

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; and
- **impaired exposure** is when the entity does not expect to collect all the contractual cash flows when they are due.

As at 31 December 2019, 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 14: EU CR1-A - Credit quality of exposures by exposure class and instrument

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

At 31 December 2019 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net Values
	Defaulted	Non-defaulted	Specific	General			
Credit institutions	—	107	—	—	—	—	107
Other financial corporations	—	47	—	—	—	—	47
Various balance sheet items	—	14	—	—	—	—	14
Total	**—**	**168**	**—**	**—**	**—**	**—**	**168**

At 31 December 2018 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net Values
	Defaulted	Non-defaulted	Specific	General			
Credit institutions	—	147	—	—	—	—	147
Other financial corporations	—	44	—	—	—	—	44
Various balance sheet items	—	7	—	—	—	—	7
Total	**—**	**198**	**—**	**—**	**—**	**—**	**198**

Table 15: EU CR1-B - Credit quality of exposures by industry

This table shows the credit quality of Alcentra's on- and off-balance sheet credit risk exposures by industry type.

At 31 December 2019 (£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	—	164	—	—	—	—	164
Other services	—	4	—	—	—	—	4
Total	**—**	**168**	**—**	**—**	**—**	**—**	**168**

At 31 December 2018 (£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	—	195	—	—	—	—	195
Other services	—	3	—	—	—	—	3
Total	**—**	**198**	**—**	**—**	**—**	**—**	**198**

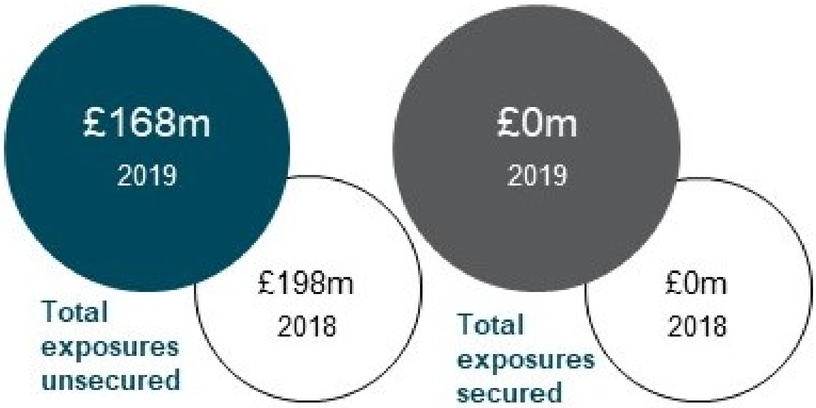
Table 16: EU CR1-C - Credit quality of exposures by geography

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

At 31 December 2019 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
UK	—	120	—	—	—	—	120
Luxembourg	—	37	—	—	—	—	37
Other	—	11	—	—	—	—	11
Total	**—**	**168**	**—**	**—**	**—**	**—**	**168**

At 31 December 2018 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
UK	—	158	—	—	—	—	158
Luxembourg	—	27	—	—	—	—	27
Other	—	13	—	—	—	—	13
Total	**—**	**198**	**—**	**—**	**—**	**—**	**198**

6 Article 453 CRR - Credit risk mitigation



Alcentra manages credit risk through a variety of credit risk mitigation strategies including collateral, master netting 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; and
- 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 concentration risk

Ongoing assessments of credit concentration risk are performed as part of the Pillar 2 risk assessment process.

Credit Concentration risk within Alcentra originates mostly through Alcentra's corporate banking activities. Alcentra has an appetite to place funds only with institutions having an internal rating of 7 or better (equivalent to Moody's/ S&P/ Fitch external rating of A3/ A-/ A- respectively). Whilst this approach undoubtedly constrains the number of eligible placement counterparties as well as the deposit spread, it also ensures that exposures are well controlled and less likely to default.

In addition, to ensure compliance with the Large Exposures and Shadow Banking Regime, Credit risk limits placements to individual banks to EUR 150m or to connected groups and shadow banking entities to a maximum of 25% of regulatory capital, in line with CRR requirements.

Table 17: EU CR3 - Credit risk mitigation techniques - overview

This table shows the extent of credit risk mitigation techniques of all exposures utilised by Alcentra.

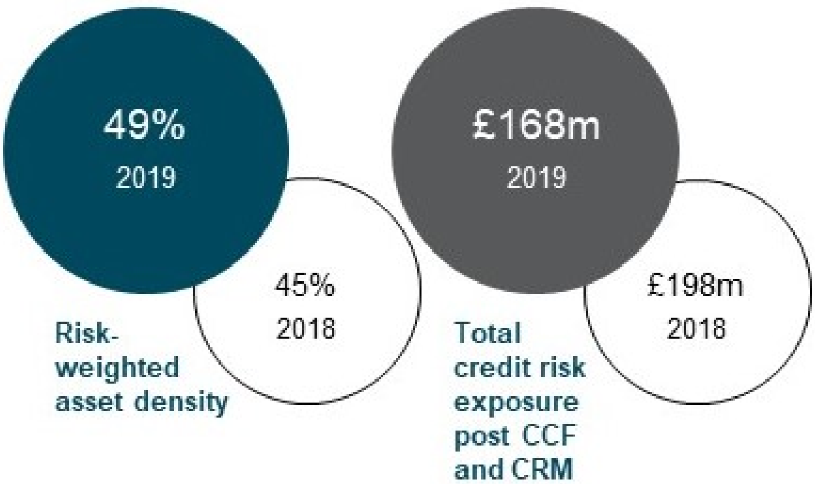
At 31 December 2019 (£m)	Exposures unsecured: carrying amount	Total exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	168	—	—	—	—
Total debt securities	—	—	—	—	—
Total exposures	**168**	**—**	**—**	**—**	**—**
Of which defaulted	—	—	—	—	—

Note: Total loans includes on- and off- balance sheets exposures post CRM and CCF subject to credit risk. Total debt securities includes all exposures subject to counterparty credit risk.

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 2019. 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 Article 444 CRR - External credit rating assessment institutions



The standardised approach requires Alcentra to use risk assessments prepared by External Credit Rating 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 18: 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 19: 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.

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%	1,250%	1,250%

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

Table 20: EU CR4 - Credit risk exposure and credit risk mitigation ('CRM') effects

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

	Exposures before CCF and CRM		Exposures post CCF and CRM			
	Balance sheet amount		Balance sheet amount			
At 31 December 2019 (£m)	On	Off	On	Off	RWA	RWA density
Corporates	47	—	47	—	47	100%
Institutions	107	—	107	—	22	20%
Other items	14	—	14	—	14	100%
Total	**168**	**—**	**168**	**—**	**83**	**49%**

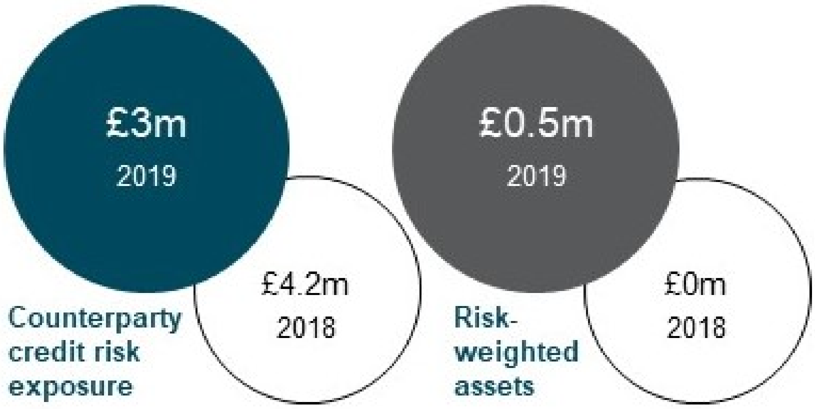
Table 21: EU CR5 - Credit risk exposure by risk-weight post CCF and CRM

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

At 31 December 2019 (£m)	0%	20%	100%	150%	250%	Other	Total
Corporates	—	—	47	—	—	—	47
Institutions	—	107	—	—	—	—	107
Other items	—	—	14	—	—	—	14
Total	**—**	**107**	**61**	**—**	**—**	**—**	**168**

At 31 December 2018 (£m)	0%	20%	100%	150%	250%	Other	Total
Corporates	—	—	44	—	—	—	44
Institutions	—	147	—	—	—	—	147
Other items	—	—	7	—	—	—	7
Total	**—**	**147**	**51**	**—**	**—**	**—**	**198**

8 Article 439 CRR - Exposure to 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 fulfillment 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 22: EU CCR1 - Analysis of the counterparty credit risk 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 (£m)		
Derivatives - Mark-to-market method	**31-Dec-19**	**31-Dec-18**
Replacement cost/ current market value	1.2	2.0
Potential future credit exposure	1.8	2.3
Netting benefits	—	—
Net current credit exposure	3.0	**4.2**
Collateral held notional value	—	—
Net derivatives credit exposure	3.0	**4.2**
Risk-weighted assets	0.5	—
SFT - under financial collateral comprehensive method	**31-Dec-19**	**31-Dec-18**
Net current credit exposure	—	—
Net SFT credit exposure	—	—
Risk-weighted assets	—	—
Counterparty credit risk exposure	3.0	**4.2**

Note: SFT (Securities Financing Transactions)

8.1 Credit valuation adjustment

The credit valuation adjustment ('CVA') 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.

Table 23: Credit valuation adjustment capital charge

This table shows the credit valuation adjustment using the standardised approach.

Portfolio at 31 December 2019 (£m)	Exposure value	RWA
All portfolios subject to the Standardised Method	3.0	0.5
Total subject to the CVA capital charge	**3.0**	**0.5**

Table 24: EU CCR3 - CCR exposures by regulatory portfolio and risk

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

At 31 December 2019 (£m)	0%	20%	50%	100%	250%	Other	Total
Corporates	—	—	—	—	—	—	—
Institutions	—	3.0	—	—	—	—	3.0
Other items	—	—	—	—	—	—	—
Total	**—**	**3.0**	**—**	**—**	**—**	**—**	**3.0**

At 31 December 2018 (£m)	0%	20%	50%	100%	250%	Other	Total
Corporates	—	—	—	—	—	—	—
Institutions	—	4.2	—	—	—	—	4.2
Other items	—	—	—	—	—	—	—
Total	**—**	**4.2**	**—**	**—**	**—**	**—**	**4.2**

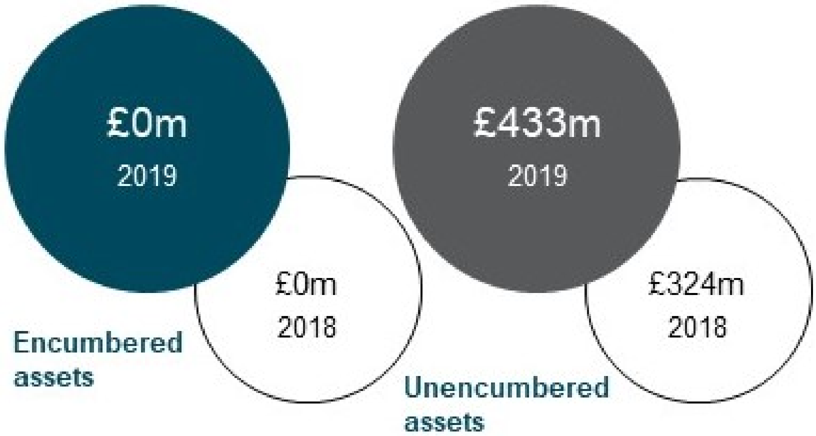
Table 25: EU CCR5-A - Impact of netting and collateral held on exposure values

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

At 31 December 2019 (£m)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives by underlying	3.0	—	3.0	—	3.0
Securities Financing Transactions	—	—	—	—	—
Cross-product netting	—	—	—	—	—

At 31 December 2019 (£m)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Total	**3.0**	**—**	**3.0**	**—**	**3.0**

9 Article 443 CRR - 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.

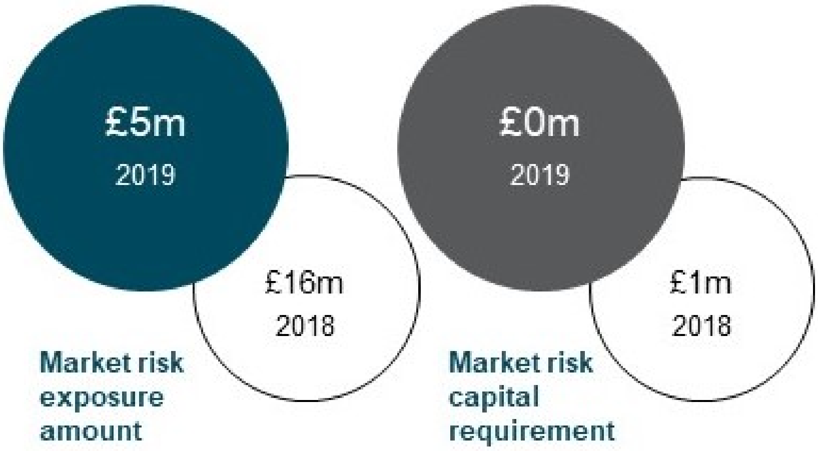
Table 26: AE-A - Encumbered assets

The carrying and fair value of encumbered assets by type, based on median values in 2019, are as follows:

31 December 2019 (£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	**—**	**—**			**433**	**—**		
Equity instruments	—	—			27	—	27	—
Debt securities	—	—	—	—	177	—	177	—
of which: issued by financial corporations	—	—	—	—	177	—	177	—
Other assets	—	—			229	—		

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

10 Article 445 CRR - Exposure to market risk



Market risk is the risk to a company'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 is from foreign exchange exposure resulting from the retranslation of non-functional currency balances held on the balance sheet. There is no trading book risk.

The foreign exchange exposure is derived from the predominance of:

- EUR and USD based receivables;
- risk retention holdings in the CLOs; and
- cash and inter-company balances which revalue each month.

Alcentra's foreign exchange hedging process is managed by The Bank of New York Mellon Corporation ('BNYMC') Hedging function. Alcentra's seed capital portfolio (the risk retention holding in the CLOs) is hedged by 90 day forward agreements. There is no upfront cash movement at the commencement of a forward agreement; these hedges are placed with a 90 day horizon and are marked-to-market during the period to maturity; on Day 89 a spot trade is placed in order to close the hedge and then a new 90 day hedge is placed. The net P&L of the forward is settled at the end of the 90 days. The seed capital portfolio is monitored during this time for any disposals or new investments - if this occurs additional 90 day hedges are created in order to manage the change in exposure.

Foreign Exchange ('FX') exposures outside of the seed capital portfolio (including but not limited to EUR management fee receivables and intercompany receivables and payables) are monitored. Any exposures are then hedged through Alcentra's bank accounts with BNY Mellon. To cover a long exposure cash is sold in that currency to mitigate the exchange rate exposure.

Table 27: EU MR1 - Market risk

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 2019 (£m)	Risk-weighted assets	Capital requirements
Foreign exchange risk	5	—
Total	**5**	**—**

11 Article 446 CRR - Interest rate risk in the banking book

Interest rate risk ('IRR') is the risk to a company’s earnings or capital arising from adverse movements in interest rates.

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 28: Net interest income sensitivity by currency

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

Currency (000s)	+ 100 basis points 31-Dec-19	- 100 basis points 31-Dec-19	+ 100 basis points 31-Dec-18	- 100 basis points 31-Dec-18
GBP	939	(939)	1,235	(1,235)
USD	(97)	97	(119)	119
EUR	(260)	260	(183)	183
Other currencies	—	—	—	—
Total	**582**	**(582)**	**933**	**(933)**
As percentage of net interest income	(9.0)%	9.0%	(16)%	16%

12 Article 446 CRR - Operational risk

Operational risk is the risk of loss resulting from people, systems, inadequate or failed internal processes or from external events (excluding strategic and reputational risk). Operational risk may arise in a variety of ways, including:

- operational errors during trade execution;
- breaches of its fiduciary obligations;
- failures in internal product governance processes;
- internal or external fraud; and
- legal or regulatory actions as a consequence of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations.

In addition to the above examples, Alcentra considers the impact of outsourcing and technology provision as part of its Operational risk profile. At present, the firm uses only two main technology platforms, acquired directly from the vendors and used to input trades and monitor fund portfolios - Wall Street Office and Everest. However, Alcentra is currently in the process of outsourcing its middle and back office activities as part of a strategic change project aimed at reducing operational risk and complexity.

Alcentra aligns its Corporate Risk Policy and Framework to that of BNY Mellon, and leverages the skills, expertise and systems of the wider organisation to perform its key risk management practices. The Policy outlines the key risk management practices performed by the business, which in turn allows the Board to identify the principal risks to the business and monitor against them to ensure they remain within the risk appetite set by the Board through its Risk Appetite Statement. The ongoing performance of risk management practices also informs the key risks that must be considered during the quantification of operational risk capital during the ICAAP.

Alcentra's approach ensures risks are continually measured and managed through the ongoing performance and reporting of:

- Key Risk Indicators;
- Risk and Control Self-Assessment ('RCSA');
- Strategic and Emerging Risk Assessment;
- Operational error and breach investigation and reporting;
- Tracking of open actions relating to identified control weaknesses; and
- Identification and monitoring of conflicts of interest.

To supplement the above risk management practices, Alcentra also performs compliance monitoring reviews which are overseen by the Global Head of Risk and Compliance. These reviews cover all aspects of the business, with particular focus on regulatory compliance and fiduciary responsibilities of the business. Any risks that arise are escalated to the Global Head of Risk and Compliance, the BNY Mellon Regional Risk and Compliance Officer ('RRCO'), the Risk and Compliance Committee and, where necessary, the Board.

The ICAAP Working Group ('IWG') has delegated responsibility for overseeing the performance of the operational loss scenario analysis which informs the quantification of operational risk capital under Pillar II.

12.1 Operational risk management framework

As a company with a limited licence there is no own funds regulatory capital requirement for operational risk, 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 manage 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. EMEA Risk Management, including the Global Head of Risk and Compliance and the Head of Operational Risk, 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 (organisationally 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.

Therefore, 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.

Alcentra uses the ORMF to capture, analyse and monitor its operational risks. The tools used to manage the operational risks of the business are outlined below. These activities are prescribed through the enterprise operational risk program, assessment systems and related processes, including but not limited to:

Risk Appetite

BNY Mellon defines Risk Appetite as the aggregate level of risk a legal entity is willing to assume after considering topics such as its strategic business objectives and business plan, the major risks facing the legal entity and its risk capacity. Alcentra has, in line with the Enterprise Risk policy for Risk Appetite, set a Risk Appetite Statement which recognises the inherent nature of operational risk and the reliance on the ORMF to mitigate it.

Risk and Control Self-Assessments ('RCSA')

A comprehensive policy 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.

Operational Risk Events ('ORE')

A standard for the capture, notification and reporting of Operational Risk Events. The collection of internal loss data provides information for assessing the entity'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. Information on operational risk event losses or gains exceeding USD10,000 are analysed to understand root cause(s) and to identify improvements needed in order to reduce the recurrence and/or magnitude of future events. All ORE are reviewed for root cause and possible mitigating actions. Reporting on ORE are provided to the Risk & Compliance Committee on a monthly basis.

Key Risk Indicators ('KRI')

Key risk metrics designed to monitor activities which could cause financial loss or reputational damage to the legal entity. Periodic and consistent monitoring of KRI ensures that deviations from predetermined standards can be identified.

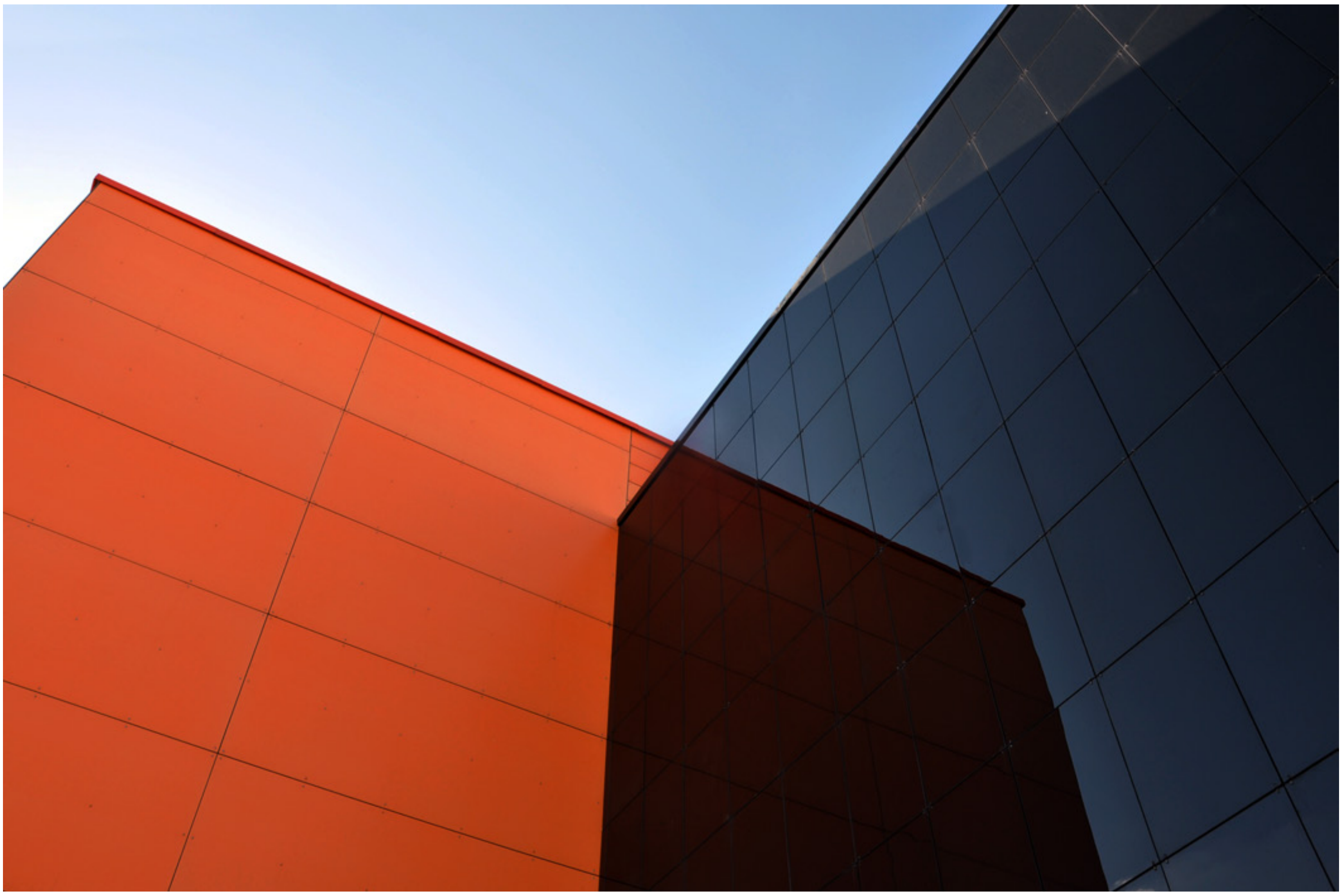
Operational Risk Scenario Analysis ('ORSA')

Operational Risk Scenario Analysis is used by Alcentra to identify and assess plausible, high impact, low probability operational risk loss events using a combination of the operational risk data and expert management judgement. Scenario analysis provides a broad perspective of risks faced globally based on the expertise of senior business and risk managers and supports an understanding of how significant operational losses could occur. Scenario analysis also supports, directly or indirectly, the calculation of operational risk capital by using the output of scenario analysis (frequencies and severities) as an input for Pillar 2A operational risk capital modelling.

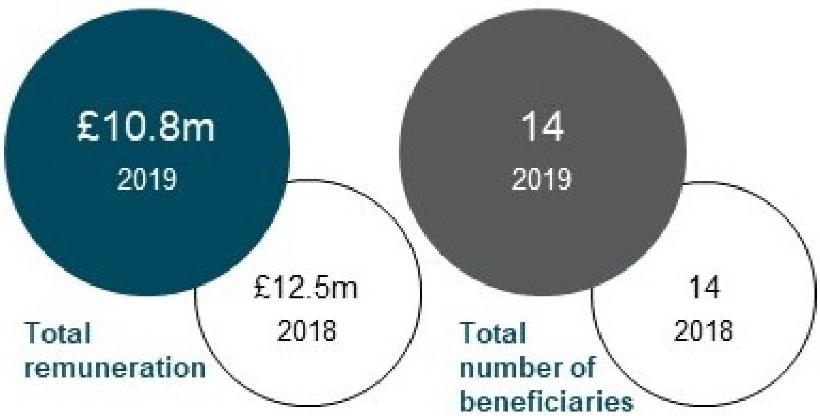
13 Article 451 CRR - Leverage

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.

Human resources



14 Article 450 CRR - Remuneration policy



14.1 Governance

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

Human Resources and Compensation Committee of BNY Mellon ('HRCC') is responsible for overseeing BNY Mellon'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 BNY Mellon's Board of Directors, acting on behalf of the BNY Mellon Board of Directors.

Investment Management Compensation Oversight Committee of BNY Mellon ("IM COC") is responsible for ensuring compensation plans are based on sound risk management, it provides governance and risk oversight to the Alcentra Remuneration Committee on any compensation risk issues. The members of the IM COC are senior members of BNY Mellon Investment Management, including the Chief Executive Officer of BNY Mellon Investment Management; Global Head of Human Resources for Investment Management, Employee Relations, and HR Governance & Internal Controls; Head of Governance, BNY Mellon Investment Management; the Chief Financial Officer, BNY Mellon Investment Management; and the Global Head of Compensation, BNY Mellon Investment Management. All new material incentive plans, material changes to existing incentive/sales plans and funding accrual decisions are subject to the review and approval of the CEO and CFO.

Incentive Compensation Review Committee ('ICRC') is the coordinating body of senior executives responsible for the oversight of the process of evaluating and recommending 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 who has directly or indirectly 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 IM COC, is responsible for remuneration policy decisions and the approval of year-end compensation awards for its respective regulated staff members. This process includes formal input from Risk and Compliance functions when determining the amount of any variable incentive awards.

In accordance with the FCA regulatory remuneration requirements, the responsibility for overseeing the development and implementation of the firm's remuneration policies and practices in relation to prescribed 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.

BNY Mellon 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 BNY Mellon's remuneration policies is subject to an annual independent internal review by the internal audit function.

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 entity 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, the interests of its employees and shareholders are aligned 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 and (ii) any additional non-performance related amounts paid as a result of contractual obligations or applicable law, or as a result of market practice.

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, for all staff, at a rate sufficient to provide for full flexibility in the variable remuneration, including 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 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 awards 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, Investment Firm equity or any combination determined appropriate from time to time.

Variable compensation is determined by the business performance as outlined above and an individual's performance as measured against feedback on the following aspects:

- corporate goals;
- individual results-based performance; and
- individual behaviours (including alignment to BNY Mellon's global competencies and values; adherence to risk, compliance and ethical obligations/competencies; and goals related to diversity and inclusion).

Alcentra MRTs are also subject to an assessment of Risk and Compliance as part of their annual performance management process which feeds into the ICRC review annual variable compensation awards.

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 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, Investment Firm equity 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 2019.

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.

Table 29: REM1 - Aggregate remuneration expenditure by business

This table shows the aggregate remuneration expenditure for MRTs in 2019 by business.

(£000s)	Asset Management	Other[2]	Total
Total remuneration[1]	10,791	—	10,791

[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 30: REM2 - 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	4	10	14
Fixed remuneration (£000s) [4]	1,083	1,838	2,921
Total variable remuneration (£000s)	3,697	4,173	7,870
Variable cash (£000s)	1,838	1,559	3,397
Variable shares/deferred cash (£000s)	1,859	2,614	4,473

[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 31: REM3 - Deferred variable remuneration

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

	Senior management	Other MRTs	Total
Number of beneficiaries	4	10	14
Total deferred variable remuneration outstanding from previous years (£000s)	13,394	8,956	22,350
Total vested (£000s)[5]	—	—	—
Total unvested (£000s)[6]	13,394	8,956	22,350

[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 31 December 2019.

Table 32: New sign-on and severance payments

This table shows the number and value of new sign-on and severance payments made during 2019.

	Senior management	Other MRTs	Total
Number of sign-on payments awarded	—	—	—
Value of sign-on payments awarded (£000s)	—	—	—
Number of severance payments awarded	1	—	1
Value of severance payments awarded (£000s)	400	—	400
Highest individual severance payment awarded (£000s)	400	—	400

Table 33: Number of individuals being remunerated EUR 1 million or more

This table shows the number of individuals who were remunerated €1m or more during 2019.

Remuneration	Total number of individuals
EUR 1m – EUR 1.5m	4
EUR 2.5m – EUR 3m	1

Appendix 1 - Other risks

Concentration risk

Concentration Risk is the risk of loss related to credit activities and any other significant interrelated asset or liability exposures which in cases of distress in some markets/sectors/countries or areas of activity may threaten the soundness of the institution.

Traditionally analysed in relation to credit activities, concentration risk arises from exposures that may arise within or across different risk types, including intra-risk concentration where exposure concentration exists within a single risk type, and inter-risk 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 manages concentration risk as part of its credit, market, operational and liquidity management policies.

Reputational risk

Reputational risk relates to the risk of damage to the Company's brand and existing or future relationships.

Alcentra is at risk of reputational damage arising from a variety of sources with the potential to cause direct damage to the Company. In extreme circumstances such damage could result in a wind-down exercise being triggered. Alcentra uses various risk management strategies to mitigate associated risks.

Group risk

Group risk is the risk that the financial position of the Company may be adversely affected by its relationships (financial or non-financial) with other entities in the Group or by risks which may affect the financial position of the Group as a whole - for example reputation contagion or parent default.

Group risk in relation to Alcentra is the risk of failure of either the BNY Mellon Group or the Alcentra Group and the impact that this will have on the Company's ability to meet its financial and / or regulatory obligations and continue to service its clients.

This risk is primarily mitigated by the BNY Mellon Boutique Strategy. Each Boutique is branded separately which reduces the risk of cross-contamination should another Boutique encounter difficulties.

The Company does not rely on the Alcentra Group for any services. Alcentra is well capitalised and has its own self-sufficient liquid capital reserves – it is not reliant on either BNY Mellon or the Alcentra Group for its financial resources.

Alcentra recognise that Group risk could arise owing to a group system failure or centralised cyber-attack; however a robust system of policies and procedure mitigate this risk. There is a strong governance structure and risk management system surrounding shared corporate technology solutions. These include but are not limited to:

- strict user access management controls;
- controls relating to system architecture and application development; and
- extensive back-up and recovery procedures.

Business risk

Business risk is the risk of loss caused by unexpected changes in the external macro environment, client behaviour or events that impact earnings including contracting markets, reduced margins from competitive pressure, adverse customer selection, and business concentration.

Business risk could arise from exposure to a wide range of macro-economic, geopolitical, industry, regulatory, client behaviour, inappropriate management actions, and other external risks that might deflect from desired strategy and business plans.

Pension obligation risk

Pension obligation risk is the risk to the Company caused by its contractual or other liabilities to or with respect to a pension scheme. It also means the risk that the Company will make payments or other contribution to or with respect to a pension scheme because of a moral obligation, or because the Company considers that it needs to do so for some other reason.

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.

Securitisation risk

Securitisation risk is defined as the risk transferred through securitisation of assets and the effect of a securitisation arrangement failing to operate as anticipated or of the values and risks transferred not emerging as expected.

Alcentra does not securitise any of its assets, therefore this risk is not applicable.

Residual risk

Residual risk may result from exposure due to partial performance or failure of credit risk mitigation techniques for reasons that are unconnected with their intrinsic value. This mainly relates to credit risk and could result from ineffective documentation, a delay in payment or the inability to realise payment from a guarantor in a timely manner.

The Company does not consider this to be a significant risk as there is no Trading Book and therefore no significant Credit risk on the Balance Sheet.

Legal risk

Alcentra considers its exposure to Legal risk to be in respect of fines, penalties and damages resulting from client and vendor disputes and employee actions.

This risk category is already covered under Operational risk, particularly with respect to dealing with employee safety, discrimination and the Company being sued by clients over disputes with regards to investment advisory services provided by the Company.

In order to mitigate this risk, Alcentra works closely with several external law firms in relation to the structuring of all the investment vehicles for which it acts as Investment Manager, and its own regulatory, corporate and contractual obligations. On an ongoing basis the Company benefits from expert legal analysis provided by internal and external legal counsel with various specialisms in relation to any developments that might affect the Company. Alcentra also employs two permanent in house lawyers and receives legal assistance provided by the central BNY Mellon Legal function, which is equivalent to approximately two additional lawyers.

Liquidity risk

Liquidity risk is the risk that the Company, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

Alcentra's short-term liquidity demands arise mainly from staff salaries and general expenses of the business - such as rent, subscriptions and travel costs. Cash inflows are generated from the management fees derived from each fund. CLOs tend to pay semi-annually, however with the number of existing CLO funds the Company generates cash on a monthly basis. Credit Funds and Separately Managed Accounts pay either monthly or quarterly and Mezzanine Funds pay on request from Alcentra.

The debtors are monitored monthly for aging and are billed regularly. As a result the Company is highly cash generative on a month-to-month basis.

Regulatory risk

Regulatory risk is the risk resulting from non-compliance with, violations of, or non-observance with applicable rules, regulations, laws, ethical standards and related policies and procedures. The inability or failure to fully implement changes to applicable rules and regulations would also constitute Regulatory risk.

The way that Alcentra conducts its business is governed by a series of rules and principles defined by our principle regulator, the Financial Conduct Authority. These are subject to change, often as a consequence of European directives, which once passed are subsequently transposed into national Law.

Whilst Alcentra is well aware of the current regulatory obligations, should regulations change, new requirements could be introduced which may alter the risk profile of the Company.

Regulatory risk is mitigated as the Company has a diversified product base and assesses the impact of new legislation in conjunction with an effective compliance function.

Model risk

Model risk is defined as the estimation or measurement error resulting from the inherent limitations in the financial models used in assessing and managing risk.

Given the reliance on the quantitative models used to assess capital adequacy in this ICAAP, the risk remains whether these models are robust and reliable. Alcentra uses the Loss/Scenario-Based Hybrid Operational Risk Capital Model 2.0 for its quantification of Pillar II operational risk capital. The model is subject to BNY Mellon Enterprise Model Risk Management Policy and governance processes. This includes periodic model validation exercises and the model risk assessment process. In addition to this, an Enterprise Model Risk Management Committee provides governance and oversight across all BNY Mellon entities, including Alcentra. The Committee is chaired by the Head of Model Risk Management and reports to the BNY Mellon Senior Risk Management Committee.

Appendix 2 - Glossary of terms

The following acronyms may be used in this document:

Acronym	Description
ABS	Asset-Backed Securities
ACPR	Autorite de Controle Prudentiel et de Resolution
AFR	Available Financial Resources
AIF	Alternative Investment Fund
ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
AS	Asset Servicing
AT1	Additional Tier 1
AUC	Assets Under Custody
BAC	Business Acceptance Committee
BAU	Business as usual
BaFin	Federal Financial Supervisory Authority / Bundesanstalt fur Finanzdienstleistungsaufsicht
BDAS	Broker-Dealer and Advisory Services
BDF	Banque De France
BEMCO	Belgium Management Council
BI	Banca D'Italia
BNY Mellon	The Bank of New York Mellon Corporation
BNY Mellon SA/NV	The Bank of New York Mellon SA/NV
BNY Mellon TDUKL	BNY Mellon Trust & Depositary (UK) Limited
BNYIFC	BNY International Financing Corporation
BNY Mellon KG	BNY Mellon Service Kapitalanlage-Gesellschaft mbH
BRC	Business Risk Committee
CASS	Client Asset Sourcebook Rules
CBI	Central Bank of Ireland
CCF	Credit Conversion Factor

Acronym	Description
CEO	Chief Executive Officer
CEF	Critical Economic Function
CET1	Common Equity Tier 1
CGB	CASS Governance Body
CIS	Collective Investment Scheme
CLO	Collateralized loan obligation
COC	Compensation Oversight Committee
COOC	CASS Operational Oversight Committee
COREP	Common Reporting
CQS	Credit Quality Steps
CRD	Capital Requirements Directive
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CROC	Credit Risk Oversight Committee
CRR	Capital Requirements Regulation
CSD	Client Service Delivery
CSRSFI	Committee for Systemic Risks and System-relevant Financial Institutions
CSSF	Commission de Surveillance du Secteur Financier
CSTC	Capital and Stress Testing Committee
CT	Corporate Trust
CTS	Client Technology Solutions
DB	Deutsche Bank
DNB	De Nederlandsche Bank
DVP	Delivery versus Payment
EAD	Exposure at default
EC	European Commission
ECL	Expected Credit Losses
ECAP	Economic Capital
ECB	European Central Bank

Acronym	Description
ECM	Embedded Control Management
EEC	EMEA Executive Committee
EHQLA	Extremely High Quality Liquid Assets
EMEA	Europe, Middle East and Africa
ERGC	EMEA Remuneration Governance Committee
ESRMC	EMEA Senior Risk Management Committee
EU	European Union
EUR	Euro
EWI	Early Warning Indicators
ExCo	Executive Committee
FCA	Financial Conduct Authority
FMUs	Financial market utilities
FoP	Free of payment
FRS	Financial Reporting Standard
FSMA	Financial Services and Markets Authority
FX	Foreign Exchange
G-SIFI	Global Systemically Important Financial Institution
GCA	Global Custody Agreement
GSP	Global Securities Processing
HLA	High-level Assessment
HQLA	High Quality Liquid Assets
HRCC	Human Resources Compensation Committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICA	Internal Capital Assessment
ICAAP	Internal Capital Adequacy Assessment Process
ICRC	Incentive Compensation Review Committee
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance
IRRBB	Interest Rate Risk on Banking Book
IMMS	International Money Management System
ISDA	International Swaps and Derivatives Association
ISM	Investment Services and Markets
ILG	Individual Liquidity Guidance
IRRBB	Interest Rate Risk on Banking Book
IMMS	International Money Management System
ISDA	International Swaps and Derivatives Association
ISM	Investment Services and Markets
IT	Information Technology
IWG	ICAAP working group
JFSC	Jersey Financial Services Commission
KRI	Key Risk Indicator
KYC	Know your customer
LAB	Liquidity Asset Buffer
LCR	Liquidity Coverage Ratio
LERO	Legal Entity Risk Officer
LOB	Line of Business
LOD	Line of Defense
MiFID II	Markets in Financial Instruments Directive II
MNA	Master Netting Agreements
MRMG	Model Risk Management Group
MRT	Material Risk Taker
MtM	Mark-to-market
NAV	Net Asset Value
NBB	National Bank of Belgium
NoCo	Nomination Committee
NSFR	Net Stable Funding Ratio

Acronym	Description
O-SII	Other systemically important institution
OCI	Other Comprehensive Income
OEICs	Open-ended Investment Companies
ORE	Operational risk event
ORMF	Operational Risk Management Framework
ORSA	Operational Risk Scenario Analysis
OTC	Over the counter
P/L	Profit and Loss
PFE	Potential Future Exposure
PRA	Prudential Regulatory Authority
RCoB	Risk Committee of the Board
RCSA	Risk and Control Self-Assessment
RM	Risk Manager
RMP	Risk Management Platform
RRP	Recovery and Resolution Planning

Acronym	Description
RW	Risk-weight
RWA	Risk Weighted Assets
SA	Standardised Approach
SFT	Security Financing Transaction
SLD	Service Level Description
SREP	Supervisory review and evaluation process
SRO	Senior Risk Officer
T&D	Trust & Depositary
T1 / T2	Tier 1 / Tier 2
TCR	Total Capital Requirements
TIRC	Technology and Information Risk Council
TLAC	Total Loss-Absorbing Capacity
UCITS	Undertakings for Collective Investment in Transferable Securities
VaR	Value-at-Risk

The following terms may be used in this document:

Ad valorem: Method for charging fees according to the value of goods and services, instead of by a fixed rate, or by weight or quantity. Latin for, [according] to the value

Basel III: The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision ('BCBS') in 2010

BIPRU: Prudential sourcebook for banks, building societies and investment firms

Brexit: The United Kingdom's referendum decision to leave the EU

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

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: The 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 and Compliance Committee: A committee which meets monthly 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 ('SA'): Method used to calculate credit risk capital requirements using the Basel III, CRD IV, CRR model supplied by the BCBS. 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	N/A	N/A
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 Art 435 CRR - Risk management objectives and polices	25
435 (1) (a)	Strategies and processes to manage those risks	Section 4 Art 435 CRR - Risk management objectives and polices	25
435 (1) (b)	Structure and organisation of the risk management function	Section 4.1 Board of Directors	26
435 (1) (c)	Scope and nature of risk reporting and measurement systems	Section 4 Art 435 CRR - Risk management objectives and polices	25
435 (1) (d)	Policies for hedging and mitigating risk	Section 4 Art 435 CRR - Risk management objectives and polices	25
435 (1) (e)	Approved declaration on the adequacy of risk management arrangements	Section 4 Art 435 CRR - Risk management objectives and polices	25
435 (1) (f)	Approved risk statement describing the overall risk profile associated with business strategy	Section 4 Art 435 CRR - Risk management objectives and polices	25
435 (2) (a)	Number of directorships held by directors	Section 4.1 Board of Directors	26
435 (2) (b)	Recruitment policy of Board members, their experience and expertise	Section 4.1 Board of Directors	26
435 (2) (c)	Policy on diversity of Board membership and results against targets	Section 4.1 Board of Directors	26

435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year	Section 4.1 Board of Directors	26
435 (2) (e)	Description of information flow on risk to Board	Section 4.1 Board of Directors	26
Scope of application			
436 (a)	The name of the institution to which the requirements of this Regulation apply	Section 1.1 Disclosure policy	6
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 Art 431 CRR - Scope of disclosure requirements	6
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 Art 437 CRR - Own funds	16
437 (1) (a)	Full reconciliation of Common Equity Tier 1 (CET1) items	Table 2: CC2 - Reconciliation of regulatory capital	17
437 (1) (b)	Description of the main features of the CET1 and Additional Tier 1 and Tier 2 instruments	Table 5: CC1 - Composition of regulatory capital	20
437 (1) (c)	Full terms and conditions of all CET1, Additional Tier 1 and Tier 2 instruments	Table 5: CC1 - Composition of regulatory capital	20
437 (1) (d) (i) 437 (1) (d) (ii) 437 (1) (d) (iii)	Each prudent filter applied Each deduction made Items not deducted	Table 2: CC2 - Reconciliation of regulatory capital	17
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	BNY Mellon follows the implementation standards	N/A
Capital requirements			
438 (a)	Summary of institution’s approach to assessing adequacy of capital levels	Section 3 Art 438 CRR - Capital requirements	23
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 8: EU OV1 - Overview of RWAs	24
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
438 (e)	Own funds requirements for market risk or settlement risk, or large exposures where they exceed limits	N/A	N/A
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 8: EU OV1 - Overview of RWAs	24

438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach	N/A	N/A
Exposure to counterparty credit risk (CCR)			
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures	Section 8 Art 439 CRR - Exposure to counterparty credit risk	45
439 (b)	Discussion of process to secure collateral and establishing reserves	Section 8 Art 439 CRR - Exposure to counterparty credit risk	45
439 (c)	Discussion of management of wrong-way exposures	Section 8 Art 439 CRR - Exposure to counterparty credit risk	45
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 BNY Mellon Corp level	N/A
439 (e)	Derivation of net derivative credit exposure	Section 8 Art 439 CRR - Exposure to counterparty credit risk	45
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Section 8 Art 439 CRR - Exposure to counterparty credit risk	45
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	N/A - BNY Mellon 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 - BNY Mellon 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	37
442 (b)	Approaches for calculating credit risk adjustments	Section 5.5 Analysis of past due and impaired exposures	37
442 (c)	Disclosure of total and average net amount of exposures	Table 9: EU CRB-B - Total and average net amount of exposures	36
442 (d)	Geographical distribution of disclosures	Table 11: EU CRB-C - Geographical breakdown of exposures	36
442 (e)	Distribution of disclosures by industry or counterparty type	Table 12: EU CRB-D - Concentration of exposures by counterparty types	37
442 (f)	Residual maturity breakdown of all the exposures	Table 13: EU CRB-E - Maturity of exposures	37
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	Table 14: EU CR1-A - Credit quality of exposures by exposure class and instrument	38
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography	Table 16: EU CR1-C - Credit quality of exposures by geography	38

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	37
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately	Section 5.5 Analysis of past due and impaired exposures	37
Unencumbered assets			
443	Disclosures on unencumbered assets	Section 9 Art 443 CRR - Asset encumbrance	48
Use of ECAIs			
444 (a)	Names of the ECAIs used in the calculation of standardised approach RWAs, and reasons for any changes	Section 7 Art 444 CRR - External credit rating assessment institutions	42
444 (b)	Exposure classes associated with each ECAI	Table 19: Credit quality steps and risk-weights	42
444 (c)	Explanation of the process for translating external ratings into credit quality steps	Table 19: Credit quality steps and risk-weights	42
444 (d)	Mapping of external rating to credit quality steps	Section 7 Art 444 CRR - External credit rating assessment institutions	42
444 (e)	Exposure value pre and post-credit risk mitigation, by credit quality step	Table 20: EU CR4 Credit risk exposure and CRM effects	43
Exposure to market risk			
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	Section 10 Art 445 CRR - Exposure to market risk	49
Operational risk			
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered	Section 12 Art 446 CRR - Operational risk	51
Exposure in equities not included in the trading book			
447 (a)	Differentiation of exposures based on objectives	N/A: no non-trading book exposure in equities	N/A
447 (b)	Recorded and fair value, and actual prices of exchange traded equity where it differs from fair value	N/A: no non-trading book exposure in equities	N/A
447 (c)	Types, nature and amounts of the relevant classes of equity exposures	N/A: no non-trading book exposure in equities	N/A
447 (d)	Realised cumulative gains and losses on sales over the period	N/A: no non-trading book exposure in equities	N/A
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital	N/A: no non-trading book exposure in equities	N/A
Exposure to interest rate risk on positions not included in the trading book			
448 (a)	Nature of risk and key assumptions in measurement models	Section 11 Art 446 CRR - Interest rate risk in the banking book (the Bank has no significant exposure to interest rate risk)	50
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	Table 28: Net interest income sensitivity by currency	50
Exposure to securitisation positions			
449	Exposure to securitisations positions	Appendix 1 Securitisation risk: no non-trading book exposure in equities	62

Remuneration disclosures			
450	Remuneration disclosure regarding remuneration policy and practices	Section 14 Art 450 CRR - Remuneration policy	55
450 (1) (a)	Information concerning the decision-making process used for determining the remuneration policy	Section 14.1 Governance	55
450 (1) (b)	Information on link between pay and performance	Section 14.2 Aligning pay with performance	56
450 (1) (c)	Important design characteristics of the remuneration system	Section 14 Art 450 CRR - Remuneration policy	55
450 (1) (d)	Ratios between fixed and variable remuneration	Section 14.4 Ratio between fixed and variable pay	57
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	58
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	58
450 (1) (g)	Aggregate quantitative information on remuneration by business area	Table 29: REM1 - Aggregate remuneration expenditure by business	58
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	Table 30: REM2 - Aggregate remuneration expenditure by remuneration type	59
450 (1) (i)	Number of individuals being remunerated £1 million or more per financial year	Table 32: Number of individuals being remunerated EUR 1 million or more	60
450 (1) (j)	Total remuneration for each member of the management body upon demand from the Member State or competent authority	Available upon request	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	Noted	N/A
Leverage			
451 (1) (a)	Leverage ratio	Section 13 Art 451 CRR - Leverage	54
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	BNY Mellon 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	40
453 (b)	How collateral valuation is managed	Section 6.2 Collateral valuation and management	40
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 - BNY Mellon'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 concentration risk	41
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	Table 17: Credit risk mitigation techniques - overview	41
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 Art 437 CRR - Own funds	16
Article 3	Description of the main features of CET1, AT1 and Tier 2 instruments issued (Annex II and III)	Table 7: CCA - Main features of regulatory capital instruments	21
Article 4	Disclosure of nature and amounts of specific items on own funds (Annex IV and V)	Table 6: TLAC1 - Transitional own funds	20
Article 5	Disclosure of nature and amounts of specific items on own funds during transitional period (Annex VI and VII)	Table 6: TLAC1 - Transitional own funds	20
Article 6	Entry into force from 31 March 2014	Noted	N/A

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