Alcentra Asset Management Limited

PILLAR 3 DISCLOSURE
DECEMBER 31, 2014

BNY MELLON | Invested

Pillar 3 Disclosure

Pillar 3 disclosures are published in accordance with the requirements of the Capital Requirements Directive (2013/36/EU) and Regulations ((EU) No. 575/2013) together "CRD IV".

Scope of the Disclosure

This disclosure has been prepared for Alcentra Asset Management Limited (or the Company). The Board of Directors (BoD) of Alcentra Asset Management Limited (AAM) adopts this Pillar 3 approach to comply with requirements on Disclosure by Institutions for assessing the appropriateness of the company's Pillar 3 market disclosures, including their verification and frequency to comprehensively convey the Company risk profile to market participants.

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

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content e.g. disclosure about risk management practices and capital resources at year end.

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

Non-material, proprietary or confidential information

The BoD 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 the company 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.

The BoD may omit one or more disclosures if the information provided is regarded as confidential, including but not limited to obligations to customers or other counterparty relationships binding the Company to confidentiality. In these exceptional circumstances, the BoD will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure, and will publish more general information about the subject matter of the disclosure requirement except where these are to be classified as secret or confidential.

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

Frequency and means of disclosure

Disclosure will be made annually based on calendar year end and will be published as soon as possible after publication of the consolidated audited annual accounts. The company 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 its own funds and capital requirements and information about risk exposure and any other items prone to rapid change.

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

Disclosures will be published on The Bank of New York Mellon group website (www.bnymellon.com) and on AAM's website (www.alcentra.com).

Table of Contents

1. Introduction

The Bank of New York Mellon (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. The Pillar 3 disclosure relates to Alcentra Asset Management Limited (AAM) and are published in accordance with the requirements of the Capital Requirements Directive (2013/36/EU) and Regulations ((EU) No. 575/2013) together "CRD IV". AAM uses the Standardised Approach for calculating credit and market risk.

1.1. Purpose of Pillar 3

Basel III (or the Third Basel Accord) works alongside the Basel I and Basel II requirements and has been developed to strengthen the capital requirements of credit institutions by increasing liquidity and decreasing leverage. The main purpose of Basel III is to enhance prudential requirements for credit institution to:

- Increase the quality of capital that credit institutions are required to hold;
- Introduce capital buffers for some credit institutions;
- Introduce an EU wide liquidity regime;
- Establish a leverage back stop;
- Introduce new governance requirements;
- Introduce a remuneration 'bonus cap';
- Harmonises regulatory reporting across Europe.

The Basel framework established a risk sensitive approach to capital management and is comprised of three pillars:

- **Pillar 1** establishes rules for the calculation of minimum capital for credit risk, market risk and fixed overhead requirements.
- **Pillar 2** is an internal discipline to evaluate the adequacy of the regulatory capital requirement under Pillar 1 and other non pillar 1 risks. This pillar requires the FCA to undertake a supervisory review to assess the robustness of internal capital assessment.
- **Pillar 3** complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to better understand the risk profile of individual banks and companies and to make comparison.

1.2. Highlights and Key Events

This document has been prepared with reference to the specific UK business regulated by the Financial Conduct Authority (FCA)[1] – Alcentra Limited ("Alcentra"). Alcentra is a wholly owned subsidiary company of AAM. AAM is not authorised to carry out regulated activities. Alcentra did not undertake any significant acquisitions or disposals in 201 and its assets under management ("AUM") increased by 8.2% to €10.8Bn (as at 31 December 2013 €8.9Bn) as a result of new fund launches and inflows into existing funds/strategies.

Whilst the core business remains the Collateralized Loan Obligation (CLO) platform where three new funds were raised, the company did continue to expand its product base through the launch and increase in AUM in its existing funds and managed accounts.

Board construct

The BoD of Alcentra consists of:

		Total number of Directorships held
David Forbes-Nixon	Chief Executive Officer (CEO)	3
Robert Bennett	Chief Financial Officer /Chief Operating Officer/ Chief Risk Officer (CFO/COO/CRO)	1
James Algar	Chief Compliance Officer (CCO)	1
Greg Brisk	Global Head of Risk and Compliance, BNYM Investment Management	32*
Andrew Golding	Non-Executive Director	11
Amir Eilon	Non-Executive Director	11

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

Alcentra appointed the 2 non-executive directors to the Board in August 2014 to improve the governance structure of the Company.

As well as the Alcentra Limited Board, there is a management committee at the BNY Alcentra Group Holdings Inc level which is comprised of Alcentra senior management, Alcentra non-executive directors as well as BNYM Asset Management senior management. This committee meets on a monthly basis and discusses all business, financial and operational issues affecting the entire Alcentra Group. Monthly management committee papers are prepared and distributed to all committee members, which include a number of key sections including financial, compliance and risk, operational and investment performance reports.

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

- David Forbes-Nixon, CEO, reports into Mitchell Harris, President of BNYM Investment Management
- James Algar, Compliance Officer, reports into Chris Rexworthy, EMEA Head of Risk and Compliance, BNYM Investment Management
- Robert Bennett, CFO, reports into the CFO of BNYM Investment Management.

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

German Branch

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

Risk Retention

Alcentra acts as the risk retention holder for CLO issuances by acting as Sponsor and holding the 5% retention stake. These investments can either be in the form of a vertical or horizontal strip of the underlying notes. Due to the lower risk associated with a vertical strip (c.80% of the investment will be in BBB rated paper and above) Alcentra has opted for this option to satisfy the ECB rules. At the end of 2014 Alcentra has launched 4 Risk Retention Compliant CLOs with a total of €92m invested in vertical strips.

Financial performance

2014 was another strong and profitable year for Alcentra, the main highlights for 2014 are summarised below:

- Assets under Management grew by 21.3% to €10.8bn
- Net Assets of £137.2mn (+19% on 2013)
- Cash balances of £80.0mn (+ 28% on 2013)
- Management fees of £51.2mn (-16.6% on 2013 due to one-off deferred CLO subordinated fees being paid in 2013)
- Profit for year of £28.3mn (-6.9% on 2013)

2. Scope and application of directive requirements

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

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

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

Figure 1: Organisational structure of Alcentra Group

2.1. Organizational Structure

At the end of 2015 Alcentra had 69 employees, including investment professionals involved with the management of CLO and other funds. This established team has a distinctive investment approach that is characterised by rigorous, independent analysis of fund strategies and businesses which include hedge fund techniques in some cases.

3. Risk Management Objectives and Policies

3.1. Risk Objectives

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

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

The identification, measurement, monitoring and management of risk are essential elements for the success of operations undertaken within the UK structure of Alcentra. Specifically:

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

3.2. Risk Management Framework and Governance

Policies and procedures are in place to govern and manage the business, which are common to all BNY Mellon entities. Suitable policies and procedures have been adopted by Alcentra in order to ensure an appropriate level of risk management is directed at the relevant element of the business. The BOD is satisfied that it has in place adequate risk management systems are in place and are adequate in relation to the firms or file and strategy.

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

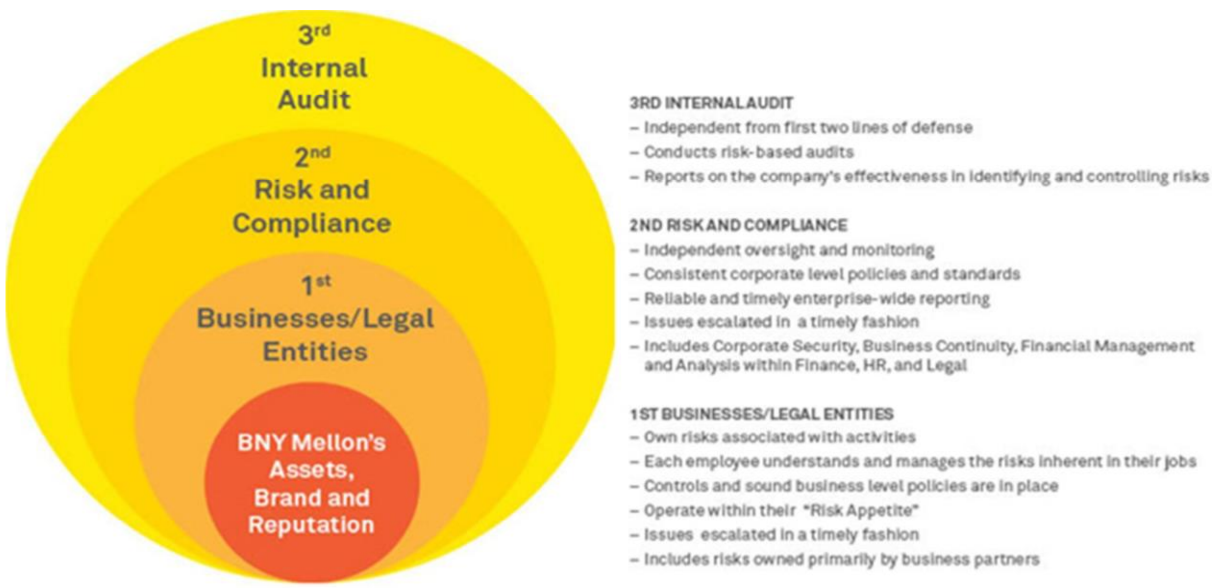
The Alcentra BoD is responsible for the ongoing success and development of the Alcentra business. Objectives are set by the BOD and are set out in the boards Terms of Reference document.

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

Governance of Alcentra is distinct from the governance of the investment funds for which Alcentra is appointed as investment manager. The governance arrangements established for the investment funds do not include any Alcentra employees. 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.

Risk Management culture is centered around the Three Lines of Defence (Figure 2).

Figure 2: Three Lines of Defence



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

3.3. Risk Appetite

Alcentra defines risk appetite as the maximum level of risk it is willing to accept while maximising the interests of shareholders and other corporate stakeholders including regulators. Risk appetite is linked to the strategic direction set by senior management and is approved by the Alcentra Board of Directors ("BoD") and management committee with oversight provided by the BNYM Investment Management Risk Committee ("IMRC"). Risk appetite considers the balance between risk and reward aligning the strategic goals and the overall risk.

The risk appetite is articulated through a comprehensive set of metrics; where capital represents one of the core elements of BNYMC's risk appetite. Thresholds are established to measure the performance of the business against its risk appetite.

The Risk Appetite Statement forms an integral part of the management of the business. Risk Appetite Statement has been developed by Alcentra and approved by the BoD and sets risk appetite within the global BNYM Investment Management risk appetite statement.

3.4. Risk Assessment Tools

Alcentra's 'Risk Universe' defines the risk types (current or future) applicable to the business. Risk types are organised by categories according to industry standards to support the efficient classification and reporting of risks and risk events as they materialise.

3.4.1. Risk and Control Self-Assessment

The business assesses the risks associated with key business processes with inherent risks that are deemed to be ‘Moderate’, ‘Moderate to High’ or ‘High’. Detailed risk assessments consider all factors of the line of business operating performance and risk profile. Assessments consider the frequency and severity of operational losses, performance of key risk indicators, emerging risks, audit and regulatory findings. In the event a control is deemed as ‘Less than Satisfactory’ or ‘Needs Improvement’ the risk owner or their designee documents a description of the Control Gap and Action Plan to close the gap within the BNY Mellon Risk Management Platform.

3.4.2. Key Risk Indicators

Alcentra maintains a group of key risk indicators (metrics) which are classified under the causal categories of Operational Risk (namely people, process, technology, legal/regulatory, external and risk management) which are applicable to the risks identified within the RCSA, and each is given a red, amber or green indicator. Where a metric triggers amber or red, the line of business is responsible for applying a narrative to explain the root cause, impact and actions to address the issues.

3.4.3. Operational Risk Events

Significant events of $10k or greater must be recorded on the Risk Management Platform as soon as practicable but within 30 calendar days of detection. Sector Operational Risk Managers may grant an extension of an additional 30 days at their discretion. Significant Events greater than USD $50,000 must be elevated and reported to Senior Management within 5 calendar days of detection and include the best available information at that point in time.

3.4.4. High Level Assessment

On a half - yearly basis Risk Management and the board provides a high level risk assessment, which provides a qualitative assessment of the inherent risk, quality of control, residual risk and direction of risk for the Top Risk.

3.4.5. Top Risks

Top Risks are identified according to the assessment of the inherent risk, quality of controls in place to mitigate risk and likelihood to identify residual risk. Top Risks are rated as ‘High,’ ‘Moderate to High,’ ‘Moderate,’ ‘Moderate to Low’ and ‘Low’ with direction anticipated. A Top Risk assessment is reported to the Risk Management Committee. Top Risks are also consolidated into the BNY Mellon Top Risk Reporting process for reporting to regional risk committees.

3.4.6. Stress Testing

The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to each boutique’s individual risk profile. Sources of risk information used to assist scenario development include Top Risk reporting, financial sensitivity analysis, outputs from the risk assessment tools, operational risk trends, macro-economic data, financial news, client management information or general business statistics.

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by each Board of Director.

The conclusion of the stress testing process is a statement of the future risk(s) the business faces, control improvements to mitigate the impact should the risk arise and where appropriate, a recommendation for the capital held against each risk type.

3.4.7. Credit Risk

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

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

3.4.8. Credit Risk Management

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

As at 31st December 2014, neither AAM nor Alcentra had any impaired assets for which a specific or general provision has been raised (2013: nil). There are no assets past due greater than 90 days. Neither AAM nor Alcentra incurred any write-offs of bad debts or made any recovery of amounts previously written off during the year to 31st December 2014 (2013: nil).

3.4.9. Credit exposure

Credit exposure is computed using the standardised approach. This method for calculating credit risk capital requirement uses prescribed risk weighted adjustments. External credit assessment institution's ratings are used to determine the risk weight for each exposure category.

Except where stated, exposure is defined as **Exposure at Default (EAD)** pre **Credit Risk Mitigation (CRM)** i.e. a regulatory exposure value after the application of Credit Conversion Factors (CCF) for off balance sheet items (including undrawn commitments) and, after netting but before application of Credit Risk Mitigation factors (e.g. property, other physical collateral). The calculation of EAD therefore takes into account both current exposure and potential drawings prior to default over a 12-month time horizon. As such, exposure in this context may differ from statutory GAAP accounting balance sheet carrying values.

It is worth noting that Alcentra has never suffered credit losses since its inception.

The following table summarises the standardised gross credit exposure by class as at December 31st, 2014.

Pillar 1 Capital Requirement *CA 2 Risk Exposure Amounts*	Alcentra Limited £ 000s		£ 000s
Asset Category	**Risk Weighted Exposure Amounts**	**Risk**	**Own Funds Requirement**
Institutions	16,586	8%	1,327
Corporates	31,901	8%	2,552
Corporates - CLO Investments	125,335	8%	10,027
Other items	5,748	8%	460
Total	**179,570**		**14,366**

The total Pillar 1 balance held as at 31 December 2014 for all Alcentra CLO investments (Jubilee X, Jubilee XI, Jubilee XII and Jubilee XIV) is £10,027k.

3.4.10. Market risk

Market Risk is the risk to a firm's financial condition arising as a result of adverse movements in the markets, such as foreign currency exchange rates, interest rates and equity and commodity prices.

Alcentra's market risk stems from foreign exchange relating to fees receivable in Euros and from seed capital investments in CLO tranches, however Foreign Exchange (FX) hedging is performed to minimise this risk.

The following table summarises the standardised gross credit exposure by class as at December 31st, 2014.

Pillar 1 Capital Requirement *CA 2 Risk Exposure Amounts*	Alcentra Limited £ 000s			
FX Exposure	**EUR**	**USD**	**HKD**	**Total**
Final Net Position	2,299	4,515	(1)	6,813
Sum of all long net positions	2,299	4,515		6,814
Sum of all short net positions			(1)	(1)
Larger exposure				6,814
Own Funds Requirement				**545**

Interest Rate Risk is the risk to a company's earnings or capital arising from adverse movements in interest rates. Alcentra has analysed which assets and liabilities are interest rate sensitive. The results from this analysis show that Alcentra has a net £200k sensitivity to a 200bps shock.

3.4.11. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events: including the potential for loss that arises from problems with operational processing, human error or omission breaches in internal controls, fraud, and unforeseen catastrophes.

3.4.11.1. Operational Risk Management

As a firm with a limited licence there is no own funds regulatory capital requirement for operational risk but instead under Pillar I Fixed Overhead Requirement is used. Under Pillar II Operational Risk is analysed in detail using the AMA Scenarios via Standardised Approach which has resulted in £12.5m of capital being held for Operational Risk

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 shared service functions such as Compliance, Internal Audit, IT Security and Risk Management of parent companies.

3.4.12. Liquidity risk

Liquidity risk is the risk that a firm, although balance sheet solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

3.4.12.1. Liquidity Risk Management

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

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

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

On a day to day basis, liquidity and funding requirements are actively managed by the Finance Department and reported to the Board of Alcentra and to BNYM on a monthly basis.

As part of the ICAAP process, Alcentra stress tests liquidity under various stressed scenarios to ensure that even under these scenarios there is enough liquidity to ensure all liabilities can be met in full.

3.4.13. Compliance Risk

Compliance risk covers the risk relating to earnings or capital from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may, in turn, expose the firm and its executors to fines, payment of damages, the voiding of contracts and damaged reputation (with accompanying indirect costs).

Alcentra is an FCA regulated investment manager. Alcentra has a small number of clients, all of which have professional status. As a subsidiary of BNY Mellon Corporation, Alcentra is subject to a number of compliance policies and benefits from corporate wide training around compliance and ethics matters.

3.4.14. Client Concentration Risk

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.

3.4.15. Business Risk

Alcentra's main business risk driver is key man risk, coming from a small number of key employees. The Alcentra BoD accepts this risk as a necessary feature of its operating model.

3.4.16. Other risks

Alcentra faces the risk of failure of IT systems and potential loss of other services. The BoD assesses the appropriateness of these systems on a regular basis to ensure they are fit for purpose.

4. Own Funds

Alcentra's Own Funds as at 31 December 2014 are as follows:

Alcentra Own Funds calculation	Alcentra Limited £ s
Asset Category	**Exposure**
Paid up capital instruments	1,700,00
Previous years retained earnings	113,234,993
Profit or loss attributable to owners of the parent	20,207,734
(-) Part of interim or year-end profit not eligible	(20,207,734)
(-) Other intangible assets gross amount	(61,239)
Common Equity Tier 1 Capital	114,873,754
Tier 1 Capital	114,873,754
Total Own Funds	**114,873,754**

Alcentra Own Funds calculation	Alcentra Limited	
Memorandum Items	**Exposure**	**Code**
CET1 Capital ratio	61.63%	10
Surplus(+)/Deficit(-) of CET1 capital	£106,486,464	20
T1 Capital ratio	61.63%	30
Surplus(+)/Deficit(-) of T1 capital	£103,690,701	40
Total capital ratio	61.63%	50
Surplus(+)/Deficit(-) of total capital	£99,963,016	60
Total capital ratio including Pillar II adjustments	12.76%	110
Total Own Funds	**114,873,754**	

5. Capital Requirements and Adequacy

Alcentra Ltd has adopted sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed. The strategies and processes are subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities conducted.

During the year ended 31st December 2014, AAM and Alcentra complied with all of the externally imposed capital requirements to which they were subject.

The tables in section 4 summarises the composition of the Alcentra's regulatory capital as reported to the FCA as at 31st December 2014.

The BoD, through setting its risk appetite and focusing on risk assessment, evaluates its current and projected capital requirements under business as usual or stress conditions.

As part of ongoing Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP), the main sources of risk have been identified, assessed *(impact & likelihood* methodology) by the relevant senior managers after taking into account mitigating controls and rationale for direction of risk, in light of the risk appetite set by the BoD.

The following table summarises the Pillar 1 capital requirement of Alcentra by exposure class and as at 31st December 2014.

Internal Capital Assessment Table Alcentra Limited			
Dec 2014 (£ 000's)	**Inputs**		**Capital Assessment**
	Pillar I	**Pillar II**	
Credit Risk [A]	4,339		4,339
Credit Risk - Investments [A]	10,027	8,027	10,027
Market Risk [B]	545		545
FOR [C]	3,491		
Operational Risk (Stress test scenario)			
Operational Risk (LDA: Loss-based)		7,868	
Operational Risk (LDA: Scenario-based)		9,970	9,970
Operational Risk: 25% add on			2,493
Business Risk			
Interest Rate Risk		200	200
Compliance Risk			
Concentration Risk			
Group Risk			
Liquidity Risk			
Model Risk			
Pension Obligation Risk			
Economic Downturn			
Other Scenario			
Orderly Wind Down		9,506	
Total ICRR (D)			**27,574**
Pillar I			14,911
Pillar II			12,663
Available Capital Resources [E]			**137,175**
Surplus Capital [E] - [D]			**109,601**
Total Capital Ratio			**39.8%**
ICG (483% of Pillar 1) [F]			**72,019**
Surplus Capital over ICG [E] - [F]			**65,156**

Alcentra's Pillar 1 capital requirement is £14.9m, consisting of £14.4m of credit risk requirement and £0.5m of market risk requirement. This amount was higher than its Fixed Overhead Requirement (FOR) of £3.5m.

In addition to Pillar 1 FOR, credit and market risks, the ICAAP has identified three risks areas: business; operational; and reputational that constitutes its key non-Pillar 1 risks. As illustrated in the results table below, the final internal capital assessment is £27.6m, consisting of:

- Credit risk of £14.4m; assessed using the standardised method. Credit risk relates to Alcentra's placements with banks, intercompany balances and accrued income;
- Market risk of £0.5m; assessed using the standardised method, assessed on their foreign currency exchange rate exposure;
- Operational risk of £12.5m; assessed using a Scenario-based model; and
- Interest rate risk of £0.2m; assessed using a 200bps sensitivity net present value analysis of the balance sheet.

The following credit risk exposure tables summarise the credit exposure for AAM. The following table summarises the standardised gross credit exposure by class as at December 31st 2014.

Pillar 1 Capital Requirement *CA 2 Risk Exposure Amounts*	Alcentra Limited £ 000s		£ 000s
Asset Category	**Risk Weighted Exposure Amounts**	**Risk**	**Own Funds Requirement**
Institutions	16,586	8%	1,327
Corporates	31,901	8%	2,552
Corporates - CLO Investments	125,335	8%	10,027
Other items	5,748	8%	460
Total	**179,570**		**14,366**

Short term claims on institutions and corporates is cash held at banks, Corporates is inter-company lending, Other items is mainly made up of accrued management fees and CLO Investments is the 5% vertical strip seed capital investments in CLOs.

Exposure to Securitisation positions

Credit Risk on CLO Risk Retention Investments

As previously described and as required under EU rules Alcentra currently invests a 5% vertical strip as sponsor for each new European CLO launched to align its interests as investment manager with investing entities.

As an example the table below shows the risk weightings assigned to each Class within the CLO liabilities based on the underlying credit ratings. Under the Pillar 1 Standardised Approach Alcentra is holding 100% of capital against the B- and Non Rated CLO notes and smaller amounts of capital against each of the remaining rated classes.

Class	Cost (£)	Ratings	Risk Weight	Risk Weight Exposure	Capital Requirement @ 8%
Class A1	12,654,561	AAA	20%	2,530,912	202,473
Class B1	2,491,975	AA	20%	498,395	39,872
Class C	1,362,799	A	50%	681,399	54,512
Class D	1,105,814	BBB	100%	1,105,814	88,465
Class E	1,502,972	BB	350%	5,260,404	420,832
Class F	778,742	B-	1250%	9,734,278	778,742
Sub Notes	1,281,041	Not rated	1250%	16,013,013	1,281,041
Total	**21,177,904**			**35,824,215**	**2,865,937**

The nominated ECAI is Fitch. There have not been any changes in the nominated ECAI in the last 12 months.

Liquidity risks associated with securitisation positions are discussed below.

5.1. Risk Weighted Assets

The following table summarises the Risk Weighted Assets (RWAs) for Alcentra by risk type.

Table: Risk Weighted Assets by risk type

As at 31 December Risk Weighted Assets (RWAs) by risk type (£000s)	**Alcentra**		
	2014	**2013**	**2012**
Credit Risk	179,575	111,688	53,263
Fixed Overhead Requirement	43,638	52,888	41,575
Market Risk	6,813	22,113	22,263
Total RWAs	**230,025**	**186,688**	**117,100**

5.2. Exposure to counterparty credit risk

Due to Alcentra having no derivative exposure on balance sheet, the business has no exposure to counterparty credit risk.

5.3. Unencumbered Assets

Alcentra has no unencumbered assets.

6. Remuneration Disclosure

6.1. Governance

Alcentra's remuneration policy is governed by the Alcentra Remuneration Committee ("RemCo"). This RemCo was established in 2015 and consists of directors and non-executive directors of Alcentra as well as senior management of BNYM including the President of BNYM Investment Management. The RemCo considers recommendations, and where appropriate recommends to the relevant employing entity, in relation to terms, conditions, remuneration and incentives for staff employed within Alcentra and works closely with BNYM in determining remuneration policy for Alcentra.

Subject to its charter, The Human Resources and Compensation Committee (HRCC) of The Bank of New York Mellon Corporation (BNY Mellon) oversees enterprise-wide employee compensation and benefit policies and programs, including Alcentra. It reviews and is responsible for other compensation plans, policies and programs in which the executive officers participate and the incentive, retirement, welfare and equity plans in which all employees participate. .

With respect to employees broadly, the company's compensation plans are also monitored by a management-level compensation oversight committee (COC). The members of the COC are members of BNY Mellon's senior management and include the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer and the Risk Management and Compliance Chief Administrative Officer. An important responsibility of the COC is to advise the HRCC on any remuneration risk-related issues.

To ensure alignment with local regulations in BNY Mellon's EMEA (Europe, Middle-East and Africa) region, the EMEA Remuneration Governance Committee (ERGC) was set-up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses, including Alcentra. The Board is responsible for any remuneration policy decisions and the approval of year-end compensation awards for their respective regulated staff members

6.2. Aligning pay with performance

Alcentra's and BNY Mellon's compensation philosophy is to offer a total compensation opportunity that supports our values: client focus, integrity, teamwork and excellence. We pay for performance, both at the individual and corporate level. We value individual and team contributions and reward based on how both contribute to business results. In support of this philosophy, variable compensation is regularly used as a means of recognising performance.

By implementing our compensation philosophy and principles, we align the interests of our employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value, by rewarding success and by ensuring that our incentive compensation arrangements do not encourage our employees to take unnecessary and excessive risks that threaten the value of Alcentra or BNY Mellon or benefit individual employees at the expense of shareholders or other stakeholders. Our compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. We aim 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.

6.3. Remuneration components

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

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

Independent directors of Alcentra only receive fixed remuneration, as disclosed in our annual Proxy Statement to shareholders.

6.4. Variable compensation funding and risk adjustment

The staff of Alcentra are eligible to be awarded variable compensation. Such variable compensation consists of both cash and deferred components and is determined by the functional hierarchy of the business or business partner service 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 incentive pool funding is based upon the performance of Alcentra.

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

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

6.5. 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 percentage of the variable compensation award to be deferred depends on the level of the position, regulatory requirements and the amount of the award.

6.6. Quantitative Remuneration Disclosure

The tables below provide details of the aggregate remuneration of Material Risk Takers for Alcentra for the year ending 31 December 2014.

For completeness, this group of staff is limited to those considered to be primarily regulated due to their activities under Alcentra. The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of Alcentra, to reflect the full reporting period.

Table: Aggregate remuneration expenditure for Code Staff in 2014 by business [1]

	Alcentra		
	Asset Management	Other(*)	Total
Total Remuneration(**)	5,166	-	5,166

(*) Includes all support functions and general management positions.

(**) Includes base salary and other cash allowances, plus any cash incentive and the total of any deferred awards made in BNY Mellon shares, valued at the date of grant, or deferred cash.

Table: Aggregate remuneration expenditure for Material Risk Takers relating to 2014 by remuneration type

	Alcentra		
	Senior Management(*)(**)	Other Material Risk Takers	Total
Number of beneficiaries	-	8	8
	£000s	£000s	£000s
Fixed Remuneration	-	1,079	1,079
Variable Remuneration	-	4,087	4,087

(*) Senior Management is comprised of MRTs identified under Article 3 (3) of the EBA RTS for identifying MRTs. Consisting of Directors, other Significant Influencing Functions and those holding the corporate title of Executive Vice President

(**) Due to data confidentiality reasons, the information for Senior Management is disclosed on an aggregate basis within the Other Material Risk Takers category.

Other employees who could be considered to be Material Risk Takers for 2014 for some of their activities under Alcentra, but who are primarily regulated in respect of a different entity have been excluded from the data displayed in the tables above.

7. Leverage

Alcentra does not use any form of leverage.

8. Glossary of terms

The following terms are used in this document:

AAM: Alcentra Asset Management Limited.

Alcentra: Alcentra Limited.

ALCO: Asset and Liability Committee.

Basel II: The June 2006 capital adequacy framework issued by the Basel Committee on Banking Supervision in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

BNYM: Bank of New York Mellon Corporation.

BoD: Board of Directors.

CLO: Collateralised Loan Obligations.

Core equity tier 1 capital: Tier 1 capital less innovative tier 1 securities and preference shares.

CRD IV: Capital Requirements Directive and Regulations.

CRM: Credit risk mitigation – A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.

EAD: Exposure at default.

Exposure: A claim, contingent claim or position which carries a risk of financial loss.

FCA: The Financial Conduct Authority (United Kingdom).

MRT: Material Risk Taker as defined by the European Banking Authority Final Regulatory Technical Standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU ("CRD IV").

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.

Risk appetite: A definition of the types and quantum of risks to which the firm wishes to be exposed.

Standardised approach: In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

Common Equity Tier 1 (CET1): Have the meanings given to such terms in the CRD IV.

Tier 2 capital: Has the meaning given to this term in CRD IV.

APPENDIX A

Alcentra Limited Board of Directors career biographies

David Forbes Nixon

David is the co-founder and Chief Executive of Alcentra and chairs the Alcentra European Investment Committee. He also acts as Senior Portfolio Manager of the Special Situations business. David sits on the Executive Committee of BNY Mellon Investment Management and the BNY Mellon Operating Committee.

Prior to founding Alcentra, David worked at Barclays Capital from 1995 to 2003 where he was Managing Director, Founder and Chief Investment Officer of Barclays Capital Asset Management, a wholly owned subsidiary of Barclays Group Plc and the predecessor firm of Alcentra. From 1997 to 2000, David ran a significant proprietary trading book at Barclays investing in distressed debt and special situations credits. Whilst at Barclays he set up the par loan trading business and served as a Director of the Loan Market Association (LMA) and chaired the LMA Valuation Committee.

David worked at Bankers Trust from 1992 to 1995 where he was a Vice President and head of European leveraged loan distribution and prior to that worked at Chemical Bank from 1987 to 1992 in New York and London in the structured finance and loan syndication departments.

David graduated from Birmingham University with a BSc (Hons) in Chemical Engineering.

Robert Bennett

Robert joined Alcentra in April 2003 and serves the group as Group Finance Director and Chief Operating Officer.

Prior to joining Alcentra, Robert spent six years at Baffin (UK) Limited, a Financial Services Authority regulated property fund manager with over £400 million of assets under management. As Finance Director, Compliance Officer and Company Secretary, he was responsible for all the regulatory, financial and administrative affairs of the group and the collective investment schemes they managed. In addition, he became closely involved in new product development including an innovative fund proposal to tap into the residential property market through equity release to the elderly. He had previously spent ten years in the Financial Markets Divisions of Binder Hamlyn and Arthur Andersen.

Robert graduated with a BSc in mathematics from Bristol University in 1986 and qualified as a Chartered Accountant in 1989.

James Algar

James serves as Chief Compliance Officer for Alcentra Limited. He is responsible for the oversight of the compliance function and to ensure that the business complies with all relevant rules and principles, identifying key regulatory risks and ensuring effective controls are in place. These objectives are achieved primarily through advisory, monitoring, training and analytical activities.

James is also a director of Alcentra Limited and has a direct reporting line to the Head of Risk and Compliance of Bank of New York Mellon, Investment Management.

Prior to joining Alcentra, James was an Associate Director in the transaction team of Barclays Capital Asset Management. Prior to joining Barclays Capital in May 1997, James worked at HSBC Investment Bank where he spent five years working in various roles within the specialised financing support area. He has a further nine years' experience within other financial services institutions.

James holds the Chartered institute of Securities and Investments Diploma in Investment Compliance.

Greg Brisk

In January 2013, Greg became the Global Head of Risk and Compliance Investment Management at BNY Mellon, an independent control function responsible for all aspects of risk (including regulatory) across all of the asset management and wealth management businesses in BNY Mellon. He is a board director of BNY Mellon International Asset Management Group Ltd and AM APAC (the European and Asian holding companies for investment management) and also sits on the board of a number of other group entities, including UK-regulated BNY Mellon Fund Managers Ltd, Irish-regulated BNY Mellon Global Management Ltd and their associated fund boards.

From April 2010-2012, Greg was responsible for the regional governance and oversight of BNY Mellon's Asset Management business outside the US as Chief Operations Officer, International Asset Management. Prior to 2012 he was Chief Operations Officer for BNY Mellon Asset Management International, the international distribution business of the group. Before taking on that role in 2002, he was the European Head of Risk and Compliance for the Mellon Group.

Before joining BNY Mellon in 1999, he worked at the Financial Services Authority as a banking regulator with responsibility for American banks in London. Greg spent his first 17 years working in a variety of roles at the Bank of England.

Amir Eilon

Amir Eilon has over 20 years of experience as an investment banker working at Credit Suisse First Boston Private Equity, BZW and Morgan Stanley. Most recently he set up Eilon and Associates, a corporate finance advisory boutique investment bank.

Andrew Golding

Andrew Golding started his career in corporate banking at Continental Illinois in 1985. He rapidly specialised in leveraged credit in origination, structuring and syndication at a number of organisations. Andrew was both Head of Leveraged Loans and of Leveraged Loan origination for Continental Europe at Barclays Capital and Head of European Financial Sponsor Coverage at Bank of America. In 2005 Andrew became private equity firm 3i's first Banking Partner and in 2007 went on to found and develop 3i's credit management platform, 3i Debt Management. Andrew now acts as a Non-Executive Director to a number of businesses. He holds an MA degree in Modern History from Magdalen College, Oxford.

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