BNY MELLON

Alcentra Limited

Pillar 3 Disclosure

December 31, 2017

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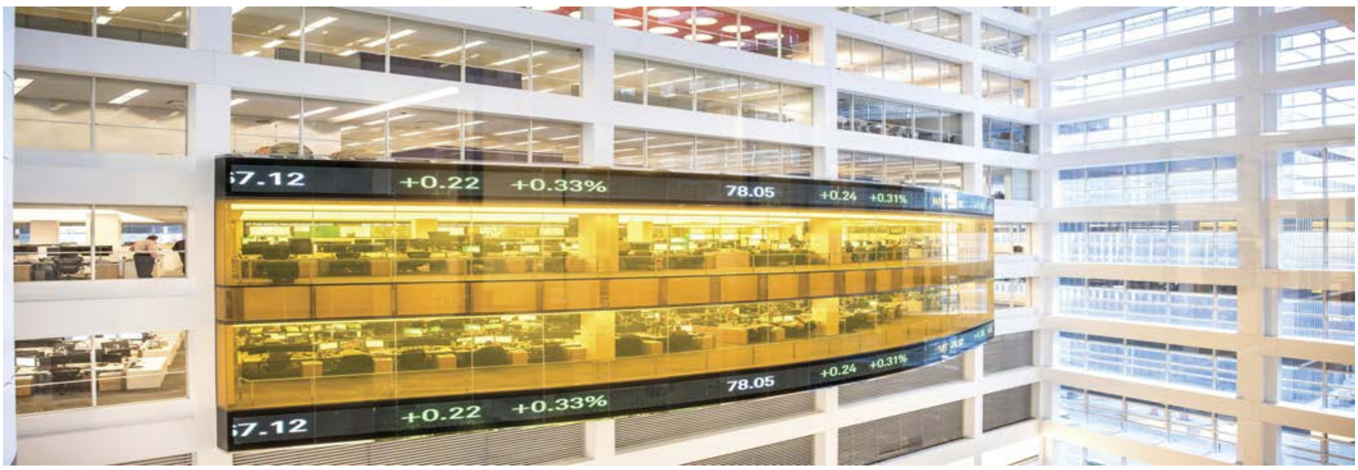
Any discrepancies between the totals and sums of components within the tables and graphs within this report are due to rounding.



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Appendices

1 Scope of application

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 2017. 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

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

This document has been prepared with reference to the specific UK business regulated by the Financial Conduct Authority (FCA) - Alcentra Limited.

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

The following risk metrics present Alcentra's risk components as at 31 December 2017. Please see page 9 for the full comprehensive list capital ratios.

Common Equity Tier 1 ratio	64.4% 2016: 57.7%
Common Equity Tier 1 capital	£277m 2016: £205m
Total risk-weighted assets	£431m 2016: £355m

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 CRD and establishes a more risk sensitive approach to capital management. It is comprised of three pillars:

Pillar 1 - Minimum capital requirement:

Establishes rules for the calculation of minimum capital for credit risk, counterparty credit risk, market risk and operational risk and capital resources requirements

Pillar 2 - Supervisory review process:

Requires firms and supervisors to undertake an internal capital adequacy assessment process to determine whether the financial institution needs to hold additional capital against risks not adequately covered in Pillar 1 and to take action accordingly

Pillar 3 - Market discipline:

Complements the other two pillars and effects market discipline through public disclosure showing an institution's risk management policies, approach to capital management, capital resources and an analysis of its credit risk exposures

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) content.

1.3 Purpose of Pillar 3

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

- Credit risk
- Counterparty credit risk
- Market risk
- Credit valuation risk
- Securitisation risk
- Operational risk

These Pillar 3 disclosures only focus on those risk and exposure types relevant to Alcentra.

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

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

1.4 Non-material, proprietary or confidential information

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

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

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

1.5 Frequency and means of disclosure

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

This policy 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:

BNY Mellon Investor Relations - Pillar 3 Alcentra - regulatory information

1.6 Board approval

These disclosures were approved for publication by Alcentra Limited's Board of Directors on 9 November 2018. The Board has verified that the disclosures are consistent with formal policies adopted regarding production and validation and are satisfied with the adequacy and effectiveness of the risk management arrangements.

1.7 Key 2017 and future events

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

During 2018, the Company will continue to develop and launch new products within its six core strategies to clients.

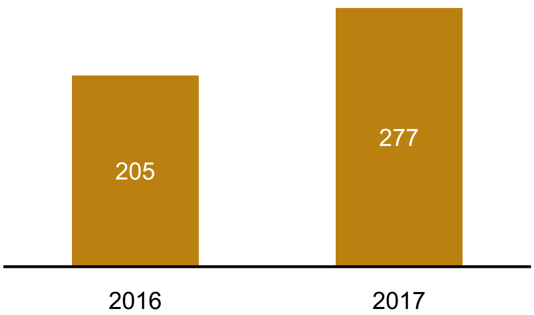
The strategic focus of the Company is to develop the business to maximise shareholders' value. This will initially be done through the pursuit of organic growth of operations. In the forthcoming year, the directors expect to increase revenues by launching new funds and increasing assets under management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

In relation to the assessment and monitoring of economic, political and regulatory risks, the Company is continuing to evaluate the impact of the outcome of the recent referendum in relation to the UK's membership of the EU on business strategy and business risks in the short, medium and long term.

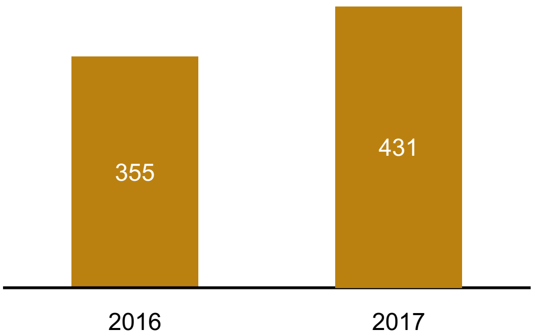
1.8 Key metrics

The following risk metrics reflect Alcentra's risk profile:

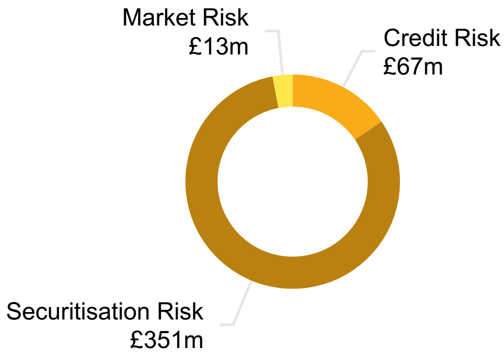
CET1 capital (£m)



Risk weighted assets (£m)



Risk exposure amount by risk type (£431m) 2017



Capital requirements by risk type (£34m) 2017

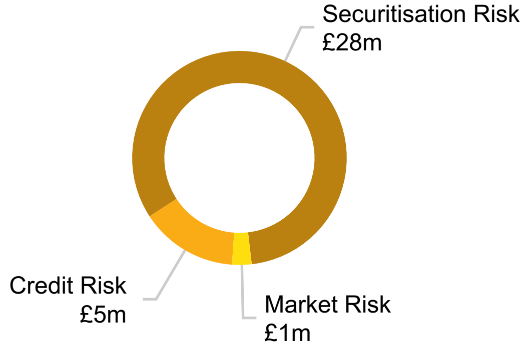


Table 1: Capital ratios

Own Funds	2017	2016
Available capital (£m)		
Common Equity Tier 1 (CET1) capital	277	205
Tier 1 capital	277	205
Total capital	**277**	**205**
Risk-weighted assets (£m)		

Own Funds	2017	2016
Total risk-weighted assets (RWA)	431	355
Risk-based capital ratios as a percentage of RWA		
CET1 ratio	64.4%	57.7%
Tier 1 ratio	64.4%	57.7%
Total capital ratio	**64.4%**	**57.7%**

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

1.9 Company description

Alcentra Limited is the only entity within Alcentra 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 ("BNYMC") 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 at 31 December 2017, BNY Mellon had $33.3 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 31st December 2017 the company manages 46 funds, including 17 Collateralised Loan Obligations (CLOs), 11 Direct Lending and Mezzanine Funds, 7 Open-Ended Credit Funds, 1 Listed Fund and 10 Loan Funds / Separately Managed Accounts, with approximately €15.3b Assets under Management (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, rigorous manager evaluation and detailed on-going monitoring.

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

Figure 1 illustrates the corporate structure of Alcentra Limited below.

Figure 1: Alcentra corporate structure at 31 December 2017

1.10 Core business lines

Alcentra Limited'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 launch of additional closed end funds
- 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. The CLO funds currently make up over 30% of Alcentra Limited's AuM. 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.

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

- Leveraged or Secured Loans
- Structured Credit
- Direct Lending
- High Yield Bonds

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
- Multi Strategy Credit Funds

1.10.1 Risk Retention

Alcentra Limited acts as the risk retention holder for CLO issuances by acting as sponsor or originator and holding the 5% retention stake. These investments can either be in the form of a vertical or horizontal strip of the underlying notes. As a result of the lower risk associated with a vertical strip (c.80% of the investment will be in BBB rated paper and above), Alcentra has opted for this option to satisfy the European Central Bank (ECB) rules.

From October 2018, Alcentra Limited will no longer invest in new risk retention stakes. All existing risk retention holdings made prior to this date will remain for the life of the CLO in which it is invested.

2 Own funds

The following risk metrics present Alcentra Limited's risk components as at 31 December 2017.

Total assets £344m
2016: £275m

Common Equity Tier 1 capital £277m
2016: £205m

Total own funds £277m
2016: £205m

Total risk weighted assets £431m
2016: £355m

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

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

31 December 2017 (£m)	Financial statements balance sheet	Regulatory adjustments	Regulatory balance sheet
Cash in hand and on demand balances at central banks	114	—	114
Fixed asset investments	196	7	203
Debtors	26	(1)	25
Intangible assets	—	—	—
Amounts due from group undertakings	8	—	8

31 December 2017 (£m)	Financial statements balance sheet	Regulatory adjustments	Regulatory balance sheet
Prepayments and accrued income	—	—	—
Other assets (inc derivatives)	—	—	—
Total assets	**344**	**6**	**350**
Liabilities			
Deposits by banks	22	1	23
Creditors falling due more than one year	—	—	—
Other liabilities	8	6	14
Accruals and deferred income	36	—	36
Current and deferred tax liabilities	—	—	—
Total liabilities	**66**	**7**	**73**
Shareholders' equity			
Called up share capital	26	—	26
Reserves	—	—	—
Profit or loss account*	251	(1)	250
Other	1	—	1
Capital and reserves	**278**	**(1)**	**277**
Equity and liabilities	**344**	**6**	**350**

Note: * includes 2017 year-end profit

Table 3: Composition of regulatory capital

Own Funds	31 December 2017	31 December 2016
Common Equity Tier 1 (CET1)		
Capital Instruments	26	2
Retained Earnings*	251	203
Reserves and others	—	—
CET1 Adjustments	—	—
Total CET1	**277**	**205**
Additional Tier 1 Capital (AT1)		
Total AT1	**—**	**—**
Total Tier 1 (CET1 + AT1)	**277**	**205**
Tier 2 Capital (T2)		
Total Tier 2 Capital	**—**	**—**
Total Own Funds	**277**	**205**

Note: * includes 2017 year-end profit

Table 4: Transitional own funds

Equity Instruments, Reserves and Regulatory Adjustments (£m)	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
CET1 capital: Instruments and Reserves		
Capital instruments and the related share premium accounts	26	—
of which: ordinary shares	26	—
Retained earnings*	251	—
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	—	—
CET1 capital before regulatory adjustments	**277**	**—**
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	**277**	**—**
AT1 capital	**—**	**—**
Tier 1 capital	**277**	**—**
Tier 2 (T2) capital: Instruments and provisions		
Total regulatory adjustments to T2 capital	**—**	**—**
T2 capital	**—**	**—**
Total capital	**277**	**—**
Total risk weighted assets	**431**	**—**
Capital ratios and buffers		
CET1 (as a percentage of risk exposure amount)	64.4%	—%
T1 (as a percentage of risk exposure amount)	64.4%	—%
Total capital (as a percentage of risk exposure amount)	64.4%	—%
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)	—	—

Note: * includes 2017 year-end profit

Table 5: Common tier 1 and additional tier 1 instruments and tier 2 instruments

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
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

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

3 Capital requirements

The following risk metrics present Alcentra Limited's risk components as at 31 December 2017.

Total risk exposure amount £431m

2016: £355m

Total capital requirement £34m

2016: £28m

Alcentra Limited’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

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

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

As at 31 December 2017, the FOR for Alcentra was £6.8m* (2016: £6.6m). The FOR has been calculated as equal to one quarter of the fixed expenditure of the company less allowable deductions.

*includes post audit adjustments

Table 6: Capital requirements

	Risk exposure amount		Capital requirements	
Type of risk (£m)	**31-Dec-17**	**31-Dec-16**	**31-Dec-17**	**31-Dec-16**
Credit risk SA*	67	66	5	5
Counterparty credit risk	—	—	—	—
Securitisation risk in banking book SA*	351	276	28	22
Market risk SA*	13	13	1	1
of which: foreign exchange position risk	13	13	1	1
Credit Valuation Adjustment - standardised method	—	—	—	—
Total	**431**	**355**	**34**	**28**
Total capital			**277**	**205**
Surplus capital			243	177

* SA: standardised approach

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

4 Risk management objectives and policies

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 tolerances (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
- There is a capital planning process which incorporates both economic capital modelling and a stress testing programme

The Alcentra Board of Directors 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 Risk governance

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 (see section 4.1.1). The BoD is responsible for effective and prudent management and periodically assesses governance arrangements with a view to correcting deficiencies. Members of the BoD are selected based on relevant industry knowledge, skills and expertise to achieve this aim. Alcentra recognises the need for diversity in its recruitment policy. Alcentra is a subsidiary of the Bank of New York Mellon and complies with the group's policies on Diversity and Inclusion. This policy emphasizes a broad set of qualities and competency to be considers when recruiting.

The Alcentra BoD are responsible for the ongoing success and development of the Alcentra business. Objectives are set by the BoD and are denoted in the Boards Terms of Reference document. The day-to-day decision-making is the responsibility of the executive directors of Alcentra.

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

The Risk and Compliance Committee meets on a quarterly basis and comprises Alcentra Directors, several senior members of staff at Alcentra, the Risk Manager and regional representatives from 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 BoD. To ensure the Committee remains independent no portfolio manager sits on the Committee.

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

4.1.1 Board of Directors

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

- Holding the CEO accountable for the integrity of the risk appetite framework
- Seeking independent assessment, if deemed necessary, of the integrity and robustness of the risk appetite framework by reference to stakeholder expectations

- Understanding how strategic decisions alter the risk profile, and whether the strategic change would cause the risk appetite to be exceeded

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

Board member	Function at BNY Mellon SA/NV	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 SA/NV (Y/N)
D Forbes-Nixon	Chairman and Chief Executive Officer	Blagdon House Limited	UK	Development of building projects	N	Director	N
		Dfn Charitable Foundation	UK	Education	N	Director	N
		Oakfield Tq Limited	UK	Dormant Company	N	Director	N
D Fabian	Chief Financial Officer						
G Brisk	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 Golding	Non-executive Director	On Track Retail Limited	UK	Business support services	N	Director	N
		Bira Bank Limited	UK	Banking	N	Director	N
		Goldings & Co. Limited	UK	Financial intermediation & business support services	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	Director	N
		Ambury Bath Limited	UK	Building projects & letting and operating real estate	N	Director	N
		Bright Six Limited	UK	Business and domestic software development	N	Director	N
		L&Ad Ltd	UK	Activities of head offices	N	Director	N
		Eilon & Associates Limited	UK	Business support services	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.

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

Although the Company is a stand-alone business, as a subsidiary of a larger group the Company's board members and Chief Compliance Officer also have the following reporting lines into BNY Mellon:

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

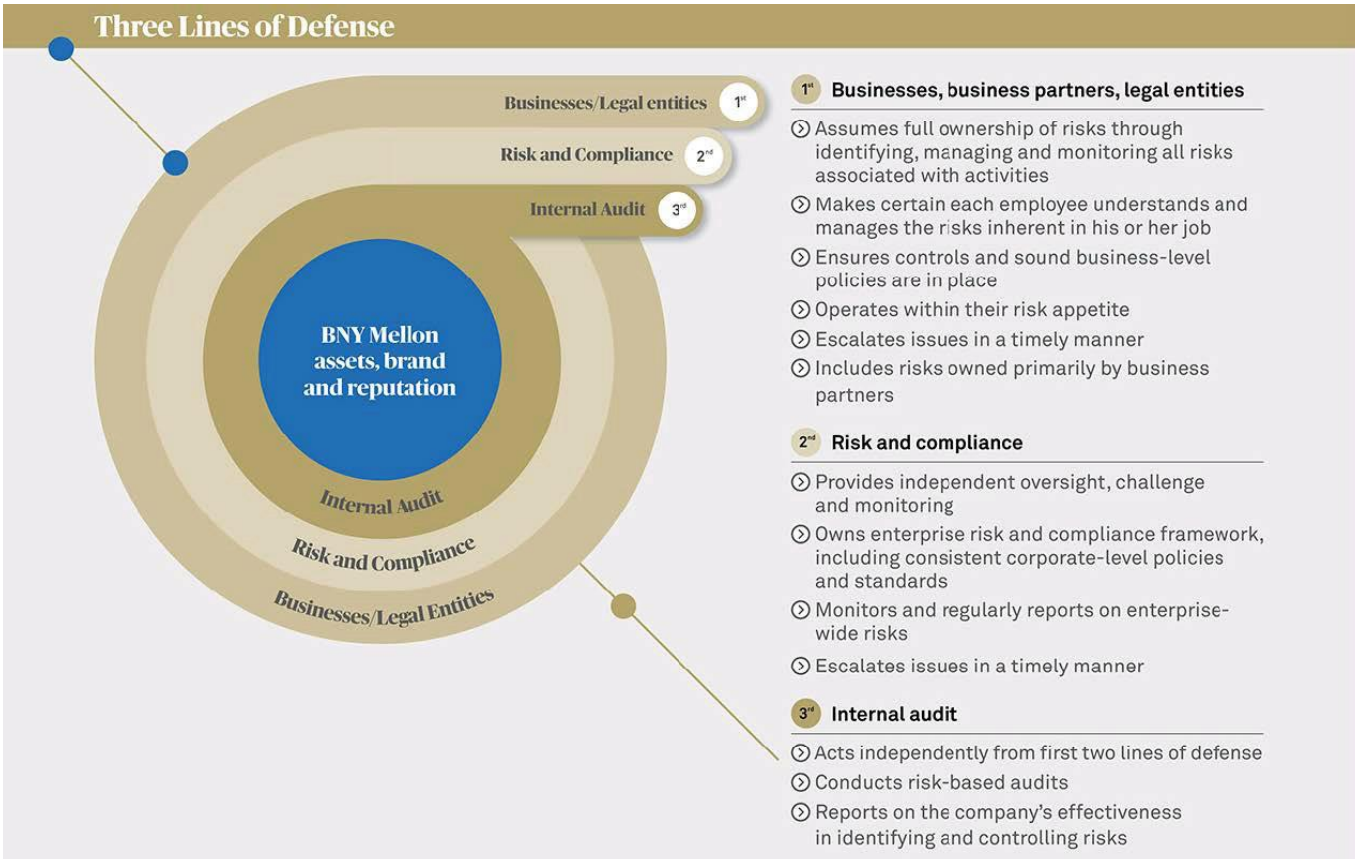
Although continually monitored, there have been no significant changes in the Company's risk forums and risk management operating practices and procedures.

4.2 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. This also includes Corporate Security, Business Continuity, Financial Management and Analysis within Finance. The third line of defence (3LOD) is Internal Audit, which independently provides the Alcentra Board and senior management with the assurance that the governance structures, risk management and internal controls in place are effective.

Risk Management develops, maintains and ensures compliance with specific regulations for Risk Management governance and oversight, risk culture, Risk Management function, Risk Management Framework (including Risk Appetite Statement, risk management policies, risk management procedures), Risk Management operating model (including Risk Registers and Management Information) and risk models oversight, in accordance with the BNY Mellon regional model and recognising best market practice to ensure Alcentra develops a well-controlled environment and an environment where risks are well understood and managed. This model encourages a proactive culture of managing risks across all Risk Management teams.

Figure 2: Managing Three Lines of Defence



Business / Legal Entities as the First Line of Defence has the following responsibilities:

- Embraces personal responsibility for identifying, monitoring and managing risk
- Identifies, mitigates and manages risks by considering business drivers and strategy, markets and the regulatory environment, and through the use of forecasting and stress testing
- Understands and manages risks inherent in their function, including those associated with products and clients
- In collaboration with the Second Line of Defence, creates relevant policies and procedures
- Identifies and address known risks and emerging issues; and escalates as appropriate
- Appropriately monitors systemically significant clients and products
- Evaluates, assesses, and approves new business/products/processes in collaboration with the Second Line of Defence
- Ensures a well-controlled environment that is proactively reassessed for appropriateness and completeness, and is updated or modified as necessary to reflect either change in the business or to address emerging risks
- With the exception of the Company Risk Appetite Statement which is the responsibility of the Chief Risk Officer, the First Line of Defence creates and maintains Risk Appetite Statements at the regional, country, legal entity or line of business level. Risk Appetite statements consider objectives and strategies, are forward looking, guide decision making, and are monitored through risk metrics

Risk and Compliance as the Second Line of Defence has the following responsibilities:

- Provides ongoing independent oversight and challenge of risk management by the First Line of Defence
- Owns the risk framework including policies, processes, measures and limits
- Identifies and anticipates known risks and emerging issues; and escalates as appropriate
- Assists in developing processes and controls to manage risks
- Monitors the adequacy and effectiveness of internal controls, accuracy and completeness of reports, compliance with laws and regulations, and timely remediation of deficiencies
- Assists in forecasting and stress testing activities
- Ensures robust monitoring and challenge of business and legal entity activities

Through its on-going business as usual (BAU) processes, Risk Management is involved from the second line in the identification, measurement, management, monitoring and reporting of risks that could potentially result in Alcentra breaching its risk appetite.

Compliance ensures that Alcentra maintains appropriate processes to comply with all applicable laws, regulations, policies and ethics. Compliance is responsible for identifying new and updated regulatory requirements, developing and implementing applicable policies and procedures that Alcentra monitors as part of its overall risk management framework.

Internal Audit as the Third Line of Defence has the following responsibilities:

- Maintains independence from First and Second Lines of Defence
- Conducts risk-based audits as per annual audit plan and continuous monitoring through the year
- Identifies opportunities for improvement in the First and Second Lines of Defence. Reports on effectiveness in identifying and appropriately controlling risks
- Tracks and validates resolution of audit issues and escalates concerns as appropriate

4.3 Risk register

The Alcentra Risk Register is a risk management tool used for the identification, assessment, documentation and mitigation of the key risks associated with the legal entity.

The Risk Register is prepared and owned by the Legal Entity Risk Officer (LERO). Senior Risk Managers of each Line of Business (LOB RMs), Risk Management function heads (e.g. Credit Risk) and key representatives from the Lines of Business/Legal Entities contribute to the Risk Register sign off. The Risk Register is presented, for information, through the legal entity governance structures and is a living document and is updated regularly, at least annually or upon significant change.

4.4 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 both the Alcentra risk management 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.

4.5 Risk and Control Self-Assessment

The Risk and Control Self- Assessment (RCSA) is a tool used by the business to identify its risks associated with their key processes. Areas of concern within the RCSAs are escalated by the Line of Business (LOB) Risk Managers to the Risk Management Committee.

4.6 Key Risk Indicators

Key Risk Indicators (KRIs) are used by Line of Business to evaluate control effectiveness against the agreed thresholds. KRI reporting and monitoring is performed monthly by the LOB Risk Managers and key concerns are escalated to Alcentra's RMC.

4.7 Emerging risk impact and priority

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

4.8 Operational risk events

All Operational Risk losses and fortuitous gains exceeding USD 10k are captured within the Risk Management Platform (RMP), verified by the Line of Business Risk Manager, and reconciled to the General Ledger. Operational Risk event reporting forms part of the standard monthly risk management report to the IMRC.

4.9 Credit risk

All counterparties (clients and banks) are assessed and allocated a borrower rating in accordance with BNY Mellon's rating system. Monitoring and control is conducted via a number of real-time systems to ensure that approved exposure levels are not exceeded, or are pre-approved by a suitable credit officer in light of individual circumstances. Post-event monitoring is also conducted by both Client Services and the Credit function.

4.10 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
- Cash and inter-company balances which revalue each month

4.11 Top risks

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

4.12 Stress testing

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

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

4.13 Escalation of risks and issues

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

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

- Approving the process to accept new business, including ‘Request for Proposal’ preparation, contract acceptance and compliance, and challenging whether Alcentra is being compensated appropriately for the assumption of risk
- Reviewing the impact of changes in business processes on inherent risks and controls such as reorganisations, new products or processes, system conversions and acquisitions, etc.
- Ensuring that processes, risks and controls are continually reassessed for appropriateness and completeness

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

4.14 Internal Capital Adequacy Assessment Process (ICAAP)

An 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 and supported by the UK/Ireland ICAAP and Capital Stress Testing team. The purpose of the ICAAP is to:

- Document the ongoing assessment and monitoring of the Company’s material risks and the approaches used to mitigate those 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 over the Company's three-year planning horizon, both under baseline and stressed conditions
- Document the internal capital adequacy assessment process both for internal stakeholders and prudential supervisors
- 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 by Alcentra

4.15 Recovery and resolution planning (RRP)

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

5 Credit risk

The following risk metrics present Alcentra's risk components as at 31 December 2017.

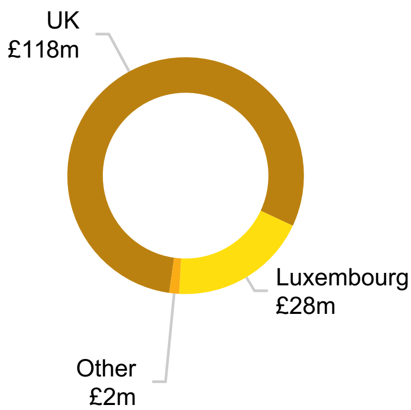
Total net credit exposure amount £148m

2016: £123m

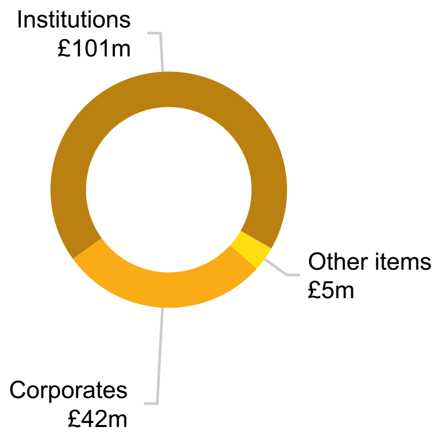
Total on and off-balance sheet exposures £148m

2016: £123m

Standardised credit exposure by country 2017



Standardised credit exposure by class 2017



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 2017 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 and does not have any derivatives in its non-trading book at present.

5.2 Credit risk management framework

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

In relation to inter-company credit risk, Alcentra's Finance team is responsible for and controls all Alcentra Group inter-company lending/borrowing. Although Alcentra Limited has lent a large amount of cash to other

Group entities, the net assets of the Alcentra Group are greater than the inter-company borrowings and hence will remain solvent even in the extreme event of all inter-company borrowings being written off.

Since July 2013, 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 2017, no breaches were reported for Alcentra.

5.4 Monitoring and reporting

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

The definitions below are used in the following tables:

- **Exposure at Default (EAD)** is defined as the amount expected to be outstanding, after any Credit Risk Mitigation, if and when a counterparty defaults. Exposure reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures over a one-year time horizon. As such, exposure in this context may differ from statutory IFRS accounting balance sheet carrying values
- **Credit Conversion Factor (CCF)** converts the amount of a free credit line and other off-balance-sheet transactions (with the exception of derivatives) to an EAD amount. This function is used to calculate the exposure at default
- **Credit Risk Mitigation (CRM)** is defined as a technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection
- **Geographic area** is based on the country location for the counterparty
- **Residual maturity** is defined as the period outstanding from the reporting date to the maturity or end date of an exposure

Table 7: Standardised credit exposure by exposure class

The following tables show the credit risk post CRM techniques using the standardised approach by exposure class at 31 December 2017.

Exposure Class (£m)	Net value at the end of the period	Average net value over the period
Corporates	42	46

Exposure Class (£m)	Net value at the end of the period	Average net value over the period
Institutions	101	105
Other items	5	5
Total	**148**	**156**

Table 8: Securitisation exposure as sponsor

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

Securitisation Exposures (£m)	Exposure		Risk Weight Amount		Capital Requirement	
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
20%	126	94	25	19	2	2
50%	11	8	6	4	—	—
100%	27	27	27	27	2	2
150%	1	—	2	—	—	—
350%	9	8	30	28	2	2
1,250%	21	16	261	198	21	16
Total	**195**	**153**	**351**	**276**	**27**	**22**

Table 9: Standardised credit exposure by country

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

31 December 2017 (£m)	UK	Luxembourg	Other	Total
Corporates	14	27	1	42
Institutions	101	—	—	101
Other items	3	1	1	5
Total	**118**	**28**	**2**	**148**

31 December 2016 (£m)	UK	Luxembourg	Other	Total
Corporates	1	14	14	29
Institutions	90	—	1	91
Other items	2	—	1	3
Total	**93**	**14**	**16**	**123**

Table 10: Standardised post mitigated credit exposures by counterparty type

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

31 December 2017 (£m)	General governments	Credit institutions	Other financial corporations	Various Balance Sheet Items	Total
Corporates	—	—	42	—	42
Institutions	—	101	—	—	101
Other items	—	—	—	5	5
Total	**—**	**101**	**42**	**5**	**148**

Table 11: Standardised credit exposure by residual maturity

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

31 December 2017 (£m)	On demand	Less than 1 year	Less than 5 years	More than 5 years	Total
Corporates	13	29	—	—	42
Institutions	101	—	—	—	101
Other	—	3	2	—	5
Total	**114**	**32**	**2**	**—**	**148**

5.5 Analysis of past due and impaired exposures

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

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

- **Past due** exposure is when a counterparty has failed to make a payment when contractually due
- **Impaired exposure** is when the entity does not expect to collect all the contractual cash flows when they are due

As at 31 December 2017, Alcentra had no material impaired assets for which a specific or general provision was required. There were no material assets past due greater than 90 days. Alcentra did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year.

Table 12: Credit quality of exposures by counterparty type

Counterparty type at 31 December 2017 (£m)	Exposures		Credit risk adjustments				
	Defaulted	Non-defaulted	Specific	General	Accumulated write-offs	Credit risk adjustment charges of the period	Net Values
Credit institutions	—	101	—	—	—	—	101
Other financial corporations	—	42	—	—	—	—	42
Various Balance Sheet Items	—	5	—	—	—	—	5
Total	**—**	**148**	**—**	**—**	**—**	**—**	**148**

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

Table 13: Credit quality of exposures by industry

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

Industry type at 31 December 2017 (£m)	Exposures		Credit risk adjustments				
	Defaulted	Non-defaulted	Specific	General	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
Financial and insurance activities	—	145	—	—	—	—	145
Other services	—	3	—	—	—	—	3
Total	**—**	**148**	**—**	**—**	**—**	**—**	**148**

Industry type at 31 December 2016 (£m)	Exposures		Credit risk adjustments				
	Defaulted	Non-defaulted	Specific	General	Accumulated write-offs	Credit risk adjustment charges of the period	Net values

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

Table 14: Credit quality of exposures by geographical breakdown

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

Counterparty type at 31 December 2017 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
UK	—	118	—	—	—	—	118
Luxembourg	—	28	—	—	—	—	28
Other	—	2	—	—	—	—	2
Total	**—**	**148**	**—**	**—**	**—**	**—**	**148**

Counterparty type at 31 December 2016 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
UK	—	93	—	—	—	—	93
Luxembourg	—	14	—	—	—	—	14
Other	—	16	—	—	—	—	16
Total	**—**	**123**	**—**	**—**	**—**	**—**	**123**

6 Credit risk mitigation

The following risk metrics present Alcentra's risk components as at 31 December 2017.

Total gross credit risk exposures (includes on- and off- balance sheet amounts £148m

2016: £123m

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

6.1 Netting

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

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

- All open derivative contracts be marked-to-market and summed
- A single net payment will be made as final settlement to whichever party holds the overall profit from the contracts
- Collateral be liquidated (if held)

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

6.2 Collateral valuation and management

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

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

6.3 Wrong-way risk

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

6.4 Credit risk concentration

Credit Concentration Risk is the risk of loss resulting from risk concentrations as a result of insufficient diversification (including single name, industry and country concentration risk). Credit risk mitigation taken by Alcentra may result in increased exposure to this type of risk which includes on and off-balance sheet (i.e. guarantees) concentration risk.

Credit risk concentration originates mostly through Alcentra's corporate banking activities. 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 assist compliance with the Large Exposures and Shadow Banking Regime, Credit Risk limits placements to individual banks or connected groups to EUR 150m and shadow banking entities to a maximum of 25% of regulatory capital, in line with CRR requirements.

Table 15: Credit risk mitigation techniques - overview

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

31 December 2017 (£m)	Exposures unsecured: carrying amount	Total exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	148	—	—	—	—
Total debt securities	—	—	—	—	—
Total exposures	**148**	**—**	**—**	**—**	**—**
Of which defaulted	—	—	—	—	—

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 2017. Using guarantees has the effect of replacing the risk weight of the underling exposure with that of the institution providing the credit protection. Guarantors are primarily rated as investment grade.

7 External credit rating assessment institutions (ECAIs)

The following risk metrics present Alcentra's risk components as at 31 December 2017.

Risk weighted asset density

45%

2016: 43%

Total credit risk exposure post CCF and CRM

£148m

2016: £123m

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

Table 16: Mapping of ECAIs credit assessments to credit quality steps

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

This table shows the mapping of Alcentra's nominated ECAIs' credit assessments to the CQS.

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

Table 17: Credit quality steps and risk weights

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

Each CQS is associated with a particular risk weighting.

This table shows the prescribed risk weights associated with the CQS by exposure class.

Exposure classes	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6
Central governments and central banks	—%	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 18: Credit risk exposure and Credit Risk Mitigation (CRM) effects

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

Exposure class (£m) at 31 December 2017	Exposures before CCF and CRM		Exposures post CCF and CRM			
	Balance sheet amount		Balance sheet amount			
	On-	Off-	On-	Off-	RWA	RWA density
Corporates	42	—	42	—	42	100%
Institutions	101	—	101	—	20	20%
Other items	5	—	5	—	5	100%
Total	**148**	**—**	**148**	**—**	**67**	**45%**

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

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

Exposure class at 31 December 2017 (£m)	—%	20%	100%	150%	250%	Other	Total
Corporates	—	—	42	—	—	—	42
Institutions	—	101	—	—	—	—	101
Other items	—	—	5	—	—	—	5
Total	**—**	**101**	**47**	**—**	**—**	**—**	**148**

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

8 Counterparty credit risk

The following risk metrics present Alcentra's risk components as at 31 December 2017.

Counterparty credit risk exposure £2.2m

2016: £1.4m

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 20: Analysis of the counterparty credit risk (CCR) exposure by approach

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

Counterparty credit risk (£000s)		
Derivatives - Mark to Market method	**31 December 2017**	**31 December 2016**
Gross positive fair value of contracts	381	113
Potential future credit exposure	1,788	1,336
Netting benefits	—	—
Net current credit exposure	**2,169**	**1,449**
Collateral held notional value	—	—
Net derivatives credit exposure	**2,169**	**1,449**
Risk weighted assets	—	—
SFT - under financial collateral comprehensive method	**31 December 2017**	**31 December 2016**
Net current credit exposure	—	—
Net SFT credit exposure	—	—
Risk weighted assets	—	—
Counterparty credit risk exposure	**2,169**	**1,449**

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 21: Credit valuation adjustment capital charge

This table provides the CVA regulatory calculations (with a breakdown by standardised and advanced approaches).

31 December 2017 (£000s)	Exposure value	RWA
Total portfolios subject to the Advanced Method		
(i) VaR component (including the 3×multiplier)		
(ii) Stressed VaR component (including the 3×multiplier)		
All portfolios subject to the Standardised Method	1,789	356
Based on Original Exposure Method		
Total subject to the CVA capital charge	**1,789**	**356**

Table 22: CCR exposures by exposure class and risk weight

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

31 December 2017 (£000s)	—%	20%	50%	100%	250%	Other	Total
Corporates	—	—	—	—	—	—	—
Institutions	—	2,169	—	—	—	—	2,169
Other items	—	—	—	—	—	—	—
Total	**—**	**2,169**	**—**	**—**	**—**	**—**	**2,169**

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

Table 23: Impact of netting and collateral held on exposure values

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

31 December 2017 (£000s)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives by underlying	2,169	—	2,169	—	2,169
Securities Financing Transactions	—	—	—	—	—
Cross-product netting	—	—	—	—	—
Total	**2,169**	**—**	**2,169**	**—**	**2,169**

9 Asset encumbrance

The following risk metrics present Alcentra's risk components as at 31 December 2017.

Carrying amount - encumbered assets

£0m

2016: £0m

Carrying amount - unencumbered assets

£350m

2016: £276m

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 24: Encumbered assets

31 December 2017 (£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	**—**	**—**			**350**	**—**		
Loans on demand	—	—			130	—		
Equity instruments	—	—			25	—	25	—
Debt securities	—	—	—	—	170	—	170	—
of which: issued by financial corporations	—	—	—	—	170	—	170	—
Other assets	—	—			25	—		

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

10 Market risk

The following risk metrics present Alcentra's risk components as at 31 December 2017.

Market risk exposure amount

£13m

2016: £13m

Market risk capital requirements

£1m

2016: £1m

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
- Cash and inter-company balances which revalue each month

Alcentra's foreign exchange hedging process is managed by the 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.

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 BNYMC. To cover a long exposure cash is sold in that currency to mitigate the exchange rate exposure

Table 25: Market risk - risk weighted assets and capital required

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

Position risk components at 31 December 2017 (£m)	Risk weighted assets	Capital requirements
Foreign exchange risk	13	1
Total	**13**	**1**

11 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 26: 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 2017	- 100 basis points 2017	+ 100 basis points 2016	- 100 basis points 2016
GBP	1,032	(1,032)	776	(776)
USD	(54)	54	(507)	507
EUR	1,945	(1,945)	1,679	(1,679)
Other currencies	—	—	—	—
Total	**2,923**	**(2,923)**	**1,948**	**(1,948)**
As percentage of net interest income	(55.2)%	55.2%	(44.3)%	44.3%

12 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
- 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. However, Alcentra does not currently outsource any of its operations and uses only two main technology platforms which were acquired directly from the vendors - Wall Street Office and Everest. These systems are primarily used by Alcentra's Global Operations staff to input trades and monitor fund portfolios. Alcentra's internal IT department has excellent in-depth knowledge of these systems, enabling timely rectification of any issues that may arise.

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
- 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 & 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 due to Alcentra, as per CRR Article 95(2)a.

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

The Operational Risk Management Framework (ORMF) provides the processes and tools necessary to 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 Legal Entity Risk Office (LERO), 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 tools are mandated through individual Operational Risk polices. 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 Register

Alcentra maintains a Risk Register which captures the most material risks associated with the business undertaken and the risk mitigations currently in place. The Risk Register is prepared and owned by the LERO. Senior Risk Officers of each Line of Business (LOB SROs), Risk Management function heads (e.g. Credit Risk) and key representatives from the Lines of Business/Legal Entities contribute to the Risk Register sign off. The Risk Register is presented through the legal entity governance structures and is a living document and is updated regularly, at least annually or upon significant change.

Risk and Control Self Assessments (RCSA)

A comprehensive policy for Business Groups and Business Partners 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. Operational Risk Events (OREs) are mapped to Basel II Operational Risk event categories and the impact to Alcentra is identified. 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 OREs (over USD10,000) are reviewed for root cause and possible mitigating actions are reported to the RMC monthly.

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 KRIs ensures that deviations from predetermined standards can be identified.

High Level Assessments (HLA)

The High Level Assessment is an independent business level qualitative assessment performed by the Business Chief Risk Officer or designees, in consultation with Business Managers for their designated business areas. The assessment analyses the quality of controls in place to mitigate risks, internal and external factors impacting the business, and the risk profile of the business. The HLA is designed to capture risks at a BNY Mellon Group level for key businesses. Being a Business Line exercise, the HLA does not provide specific information on Legal Entities. However, this is a useful source of information for the LERO who needs to form a view on the risks the Business Lines operating in Alcentra have 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 Leverage

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

14 Remuneration

The following risk metrics present Alcentra's risk components as at 31 December 2017.

Total remuneration £14.0m

2016: £13.2m

Total deferred variable remuneration outstanding from previous years £15.1m

2016: £14.1m

14.1 Governance

The governance of remuneration matters for BNY Mellon and its group entities, including Alcentra, 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.

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

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

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

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

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 corporate level. It values individual and team contributions and rewards based on how both contribute to business results. In support of this philosophy, variable compensation is regularly used as a means of recognising performance.

Through its compensation philosophy and principles, 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, (ii) any additional non-performance related amounts paid as a result of contractual obligations or applicable law, or as a result of market practice, and (iii) any benefits in kind which are awarded as a result of the job rather than the performance within the job.

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

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

14.4 Ratio between fixed and variable pay

Alcentra is regulated by the FCA and complies with all applicable remuneration requirements. Alcentra is an IFPRU €50k limited licence firm and is also a proportionality level three firm. CRD IV extends the remuneration requirements of its predecessor CRD III and includes additional provisions governing remuneration which are applied by the firm in line with the guidance on proportionality outlined in SYSC 19D.

14.5 Variable compensation funding and risk adjustment

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

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

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

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

Variable compensation may consist of both upfront cash and deferred components and is determined by the functional hierarchy of the business or function to which the individual staff member belongs, and in accordance with the terms and conditions of the incentive compensation plan that is applicable for the business or business partner service.

The deferred component is intended to align a portion of the variable compensation award with the management of longer-term business risk. The deferred compensation component is generally awarded in the form of either BNY Mellon restricted stock units, deferred cash award invested in an appropriate vehicle which is considered suitable, boutique equity or any combination determined appropriate from time to time.

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

14.6 Deferral policy and vesting criteria

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

14.7 Variable remuneration of control function staff

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

14.8 Quantitative disclosures

The tables below provide details of the aggregate remuneration of senior management and MRTs for Alcentra for the year ended 31 December 2017.

For completeness, this group of staff is limited to those considered to be Material Risk Takers. The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of Alcentra to reflect the full reporting period. No new sign-on or severance payments were made during 2017.

Table 27: Aggregate remuneration expenditure by business

This table shows the aggregate remuneration expenditure for MRTs in 2017 by business.

(£000s)	Investment services	Other[2]	Total
Total remuneration [1]	14,003	—	14,003

[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 28: 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	—	12	12
Fixed remuneration (£000s) [4]	—	2,303	2,303
Total variable remuneration (£000s)	—	11,700	11,700
Variable cash (£000s)	—	3,978	3,978
Variable shares (£000s)	—	7,722	7,722

[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 29: Deferred Variable Remuneration

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

	Senior management	Other MRTs	Total
Number of beneficiaries	—	11	11

	Senior management	Other MRTs	Total
Total deferred variable remuneration outstanding from previous years (£000s)	—	15,100	15,100
Total vested (£000s)[5]	—	—	—
Total unvested (£000s)[6]	—	15,100	15,100

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

[6] Total unvested equity is valued as at 1st February 2018.

Table 30: Number of individuals being remunerated EUR 1 million or more

This table shows the number of individuals who were remunerated €1m or more during 2017.

Remuneration	Total number of individuals
EUR 1m – EUR 1.5m	3
EUR 1.5m – EUR 2m	1
EUR 2m – EUR 2.5m	1
EUR 4.5m – EUR 5m	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.

Prior to BNY Mellons's acquisition of Alcentra on 3rd January 2006, the Company operated on a standalone basis. This operating model has not materially changed since the acquisition and although Alcentra utilises BNY Mellon's centralised services, such as HR, Legal, Tax and Technology, no reliance is placed on the BNY Mellon Group for outsourced services as Alcentra is able to run these services in-house if necessary. If BNY Mellon were to fail, Alcentra Limited or the entire Alcentra Group could be sold as a going concern.

The Company does not rely on the Alcentra Group for any services. Alcentra Limited 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
- extensive back-up and recovery procedures

Business and financial risk

Business risk

Business Risk is the risk of loss caused by unexpected changes in the external macro-economic, geopolitical, industry or regulatory environment, client behaviour or events that impact earnings, including contracting markets, reduced margins from competitive pressure, adverse customer selection, and business concentration, inappropriate management actions, and other external risks that might deflect from desired strategy and execution of business plans.

Conduct risk

Conduct risk is defined as the risk that detriment is caused to clients, the market, the Company or its employees because of inappropriate execution of our business activities or inappropriate behavior by the Company or its employees.

Non-trading book exposures in equities

Alcentra did not have any non-trading book exposures in equities as at 31 December 2017 or during the reporting period.

Outsourcing risk

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

Settlement risk

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

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

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. This risk is therefore not applicable and no additional Pillar II capital is required.

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, benefits from a legal secondee 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 terms are used in this document:

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

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

Appendix 3 CRD IV Reference

CRR ref.	Requirement summary	Compliance ref.	Page ref.
Scope of disclosure requirements			
431 (1)	Institutions shall publish Pillar 3 disclosures	BNY Mellon publishes Pillar 3 disclosures	N/A
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information	N/A	N/A
431 (3)	Institutions shall adopt a formal policy to comply with the disclosure requirements	BNY Mellon has a dedicated Pillar 3 policy	N/A
431 (4)	Explanation of ratings decision upon request	N/A	N/A
Non-material, proprietary or confidential information			
432 (1)	Institutions may omit disclosures if the information is not regarded as material (except Articles 435(2)(c), 437 and 450)	Refer to Pillar 3 policy	N/A
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected	Refer to Pillar 3 policy	N/A
432 (3)	Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed	N/A	N/A
432 (4)	Paragraphs 1, 2 & 3 are without prejudice to the scope of the liability for failure to disclose material information	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 Risk Management Objectives and Policy	19
435 (1) (a)	Strategies and processes to manage those risks	Section 4 Risk Management Objectives and Policy	19
435 (1) (b)	Structure and organisation of the risk management function	Section 4.1 Risk Governance	20
435 (1) (c)	Scope and nature of risk reporting and measurement systems	Section 4.1 - 4.15	27
435 (1) (d)	Policies for hedging and mitigating risk	Section 4.2 - 4.15	22
435 (1) (e)	Approved declaration on the adequacy of risk management arrangements	Section 4 Risk Management Objectives and Policy	19
435 (1) (f)	Approved risk statement describing the overall risk profile associated with business strategy	Section 4 Risk Management Objectives and Policy	19
435 (2) (a)	Number of directorships held by directors	Section 4.1.1 Board of Directors	20

435 (2) (b)	Recruitment policy of Board members, their experience and expertise	Section 4.1.1 Board of Directors	20
435 (2) (c)	Policy on diversity of Board membership and results against targets	Section 4.1.1 Board of Directors	20
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year	Section 4.1.1 Board of Directors	20
435 (2) (e)	Description of information flow on risk to Board	Section 4.1.1 Board of Directors	20
Scope of application			
436 (a)	The name of the institution to which the requirements of this Regulation apply	Section 1 Scope of Application	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 Scope of Application	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 Own Funds	13
437 (1) (a)	Full reconciliation of Common Equity Tier 1 (CET1) items	Table 2: Reconciliation of regulatory own funds	13
437 (1) (b)	Description of the main features of the CET1 and Additional Tier 1 and Tier 2 instruments	Table 3: Composition of regulatory capital	14
437 (1) (c)	Full terms and conditions of all CET1, Additional Tier 1 and Tier 2 instruments	Table 3: Composition of regulatory capital	14
437 (1) (d) (i) 437 (1) (d) (ii) 437 (1) (d) (iii)	Each prudent filter applied Each deduction made Items not deducted	Table 2: Reconciliation of regulatory own funds	13
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 Capital Requirements	17
438 (b)	Result of ICAAP on demand from authorities	N/A	N/A
438 (c)	Capital requirement amounts for credit risk for each standardised approach exposure class	Table 7: Standardised credit exposure by exposure class	29
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	Table 6: Capital requirements and Section 10: Market Risk	18 & 43
438 (f)	Own funds amounts for operational risk, separately for the basic indicator approach, the standardised approach, and the advanced measurement approaches as applicable	Table 6: Capital requirements and Section 12: Operational Risk	18 & 45
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach	Table 6: Capital requirements	18
Exposure to counterparty credit risk (CCR)			
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures	Section 8 Counterparty Credit Risk	39
439 (b)	Discussion of process to secure collateral and establishing reserves	Section 8 Counterparty Credit Risk	39
439 (c)	Discussion of management of wrong-way exposures	Section 8 Counterparty Credit Risk	39
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 Counterparty Credit Risk	39
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Section 8 Counterparty Credit Risk	39
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	31
442 (b)	Approaches for calculating credit risk adjustments	Section 5.5 Analysis of Past Due and Impaired Exposures	31
442 (c)	Disclosure of pre-CRM EAD by exposure class	Section 5.4 Table 7: Standardised credit exposure by exposure class	29
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class	Section 5.4 Table 9: Standardised credit exposure by country	30
442 (e)	Disclosures of pre-CRM EAD by industry and exposure class	Section 5.4 Table 10: Standardised post mitigated credit exposures by counterparty type	31
442 (f)	Disclosures of pre-CRM EAD by residual maturity and exposure class	Section 5.4 Table 11: Standardised credit exposure by residual maturity	31

442 (g) 442 (g) (i) 442 (g) (ii) 442 (g) (iii)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type	Section 5.5 Table 12: Credit quality of exposures by counterparty type	32
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography	Section 5.5 Table 14: Credit quality of exposures by geographical breakdown	33
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	31
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately	Section 5.5 Analysis of Past Due and Impaired Exposures	31
Unencumbered assets			
443	Disclosures on unencumbered assets	Section 9 Asset Encumbrance	42
Use of ECAIs			
444 (a)	Names of the ECAIs used in the calculation of standardised approach RWAs, and reasons for any changes	Section 7 External Credit Assessment Institutions (ECAIs)	36
444 (b)	Exposure classes associated with each ECAI	Section 7 Table 17: Credit quality steps and risk weights	36
444 (c)	Explanation of the process for translating external ratings into credit quality steps	Section 7 Table 17: Credit quality steps and risk weights	36
444 (d)	Mapping of external rating to credit quality steps	Section 7 External Credit Assessment Institutions (ECAIs)	36
444 (e)	Exposure value pre and post-credit risk mitigation, by credit quality step	Section 7 Table 16-19: External Credit Assessment Institutions (ECAIs)	36
Exposure to market risk			
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	Section 10 Market Risk	43
Operational risk			
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered	Section 12 Operational Risk	45
Exposure in equities not included in the trading book			
447 (a)	Differentiation of exposures based on objectives	Appendix 1 Settlement Risk: no non-trading book exposure in equities	54
447 (b)	Recorded and fair value, and actual prices of exchange traded equity where it differs from fair value	Appendix 1 Settlement Risk: no non-trading book exposure in equities	54
447 (c)	Types, nature and amounts of the relevant classes of equity exposures	Appendix 1 Settlement Risk: no non-trading book exposure in equities	54
447 (d)	Realised cumulative gains and losses on sales over the period	Appendix 1 Settlement Risk: no non-trading book exposure in equities	54
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital	Appendix 1 Settlement Risk: no non-trading book exposure in equities	54
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: The Bank has no significant Balance Sheet Interest Rate Risk because no maturity mismatch exists between client cash deposits and Bank's cash holdings. In addition, interest rates applicable to clients' cash deposits are market driven	44
448 (b)	Variation in earnings or economic value, or other measures used by the bank from upward and downward shocks to interest rates, by currency	Section 11 Table 26: Net interest income sensitivity by currency	44
Exposure to securitisation positions			
449	Exposure to securitisations positions	Appendix 1 Settlement Risk: no non-trading book exposure in equities	54
Remuneration disclosures			
450	Remuneration disclosure regarding remuneration policy and practices	Section 14 Remuneration Disclosure	49
450 (1) (a)	Information concerning the decision-making process used for determining the remuneration policy	Section 14.1 Governance	49
450 (1) (b)	Information on link between pay and performance	Section 14.2 Aligning Pay with Performance	50
450 (1) (c)	Important design characteristics of the remuneration system	Section 14 Remuneration Disclosure	49
450 (1) (d)	Ratios between fixed and variable remuneration	Section 14.4 Ratio between Fixed and Variable Pay	50
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	51
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	51
450 (1) (g)	Aggregate quantitative information on remuneration by business area	Section 14.8 Table 27: Aggregate Remuneration Expenditure by Business	52
450 (1) (h) 450 (1) (h) (i) 450 (1) (h) (ii) 450 (1) (h) (iii) 450 (1) (h) (iv) 450 (1) (h) (v) 450 (1) (h) (vi)	Aggregate quantitative information on remuneration, broken down by senior staff management and members of staff whose actions have a material impact on the risk profile	Section 14.8 Table 28: Aggregate Remuneration Expenditure by Remuneration Type	52
450 (1) (i)	Number of individuals being remunerated £1 million or more per financial year	Section 14.8 table 30	53
450 (1) (j)	Total remuneration for each member of the management body upon demand from the Member State or competent authority	N/A	N/A
450 (2)	For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information above shall be made available to the public at the level of members of the management body of the institution	N/A	N/A
Leverage			
451 (1) (a)	Leverage ratio	Section 13 Leverage Ratio	48
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	34
453 (b)	How collateral valuation is managed	Section 6.2 Collateral Valuation and Management	34
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 Risk Concentration	35
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	N/A	N/A
453 (g)	Exposures covered by guarantees or credit derivatives	Section 6.4 Table 15: Credit risk mitigation techniques - overview	35
Use of the Advanced Measurement Approaches to operational risk			
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk	N/A - Pillar 1 : standardized approach, Pillar 2 : self-assessment approach	N/A
Use of internal market risk models			
455	Institutions calculating their capital requirements using internal market risk models	N/A	N/A
Commission Implementing Regulation (EU) No 1423/2013			
Article 1	Specifies uniform templates for the purposes of disclosure	N/A	N/A
Article 2	Full reconciliation of own funds items to audited financial statements	Section 2 Own Funds	13
Article 3	Description of the main features of CET1, AT1 and Tier 2 instruments issued (Annex II and III)	Table 5: Common tier 1 and additional tier 1 instruments and tier 2 instruments	16
Article 4	Disclosure of nature and amounts of specific items on own funds (Annex IV and V)	Table 4: Transitional own funds	15
Article 5	Disclosure of nature and amounts of specific items on own funds during transitional period (Annex VI and VII)	Table 4: Transitional own funds	15
Article 6	Entry into force from 31 March 2014	N/A	N/A

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