



THE BANK OF NEW YORK MELLON

**Alcentra Asset Management Limited
Pillar 3 Disclosures for the year ended 31st December 2008**

31st March 2009

About Pillar 3 Disclosure

A. Alignment of disclosures among UK Asset Managers

The Investment Management Association, comprising a number of UK investment managers, has published guidelines for preparers of Pillar 3 disclosures to better align content, definitions and approaches and to drive comparability and consistency wherever possible. These disclosures have been produced with reference to the outcome of this Working Party. Where necessary, footnotes have been added to the data tables to explain content. However, whilst disclosures are intended to provide transparent information on a common basis, different assumptions may apply to other Investment managers especially outside the UK so a reader must understand the basis of each firm's disclosures before making comparisons.

B. Policy and approach

Pillar 3 disclosures are required at the consolidated group level for those parts of the group covered by the Basel II framework. At the request of UK regulators, this sub-disclosure has been prepared at the highest national regulated entity level.

These disclosures have been approved by the Alcentra Asset Management Limited Board of Directors (BOD) who have verified that they are consistent with formal policies adopted regarding production and validation of content.

Information in this report has been prepared solely to meet the disclosure requirements about Basel II and to provide certain specified information about capital and other risks and details about the management of those risks and for no other purpose. This paper does not constitute any form of financial statement on the business nor does it constitute any form of contemporary or forward looking record or opinion about the business.

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

This report will henceforth be made on an annual basis as at the Accounting Reference Date, 31st December and publication will take place as soon as practicable.

The company will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy and information about risk exposure and other items prone to rapid change.

The BOD at its discretion may omit one or more of the disclosures if the information provided by such disclosures is not regarded as material. The criterion for materiality used in these disclosures is that the firm will regard as material any information where omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

The BOD at its discretion may omit one or more of the disclosures if those items include information which, in the light of requirements is regarded as proprietary or confidential. In this circumstance, the BOD will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure and will publish more general information about the subject matter of the disclosure requirement except where these are to be classified as secret or confidential.

Disclosures will be published on The Bank of New York Mellon group website (www.bnymellon.com), see section Investor relations, Financial reports, Other regulatory filings

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

Further information about the company can be found in the latest Annual Report & Accounts.

Alcentra Asset Management Limited

Pillar 3 Disclosures

Contents

	Page
1. Introduction	4
2. Purpose of Pillar 3	4
3. Scope and Application of Directive Requirements	4
4. Risk Management Objectives and Policies	5
5. Capital Resources	8
6. Capital Requirements and Adequacy	9
7. Credit Risk.....	10
8. Market Risk	10
9. Operational Risk.....	10
10. Other risks	10

1. Introduction

These disclosures are about Alcentra Asset Management Limited (AAM) and are published in accordance with the requirements of the Financial Services Authority ('FSA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (*Pillar 3*). AAM implemented the Basel II standardised approach for calculating credit and market risk on 1st January 2008.

2. Purpose of Pillar 3

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

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

3. Scope and Application of Directive Requirements

AAM is London based, wholly owned and an operationally independent subsidiary of BNY Mellon International Ltd, formed in 2002 and which is, in turn, a subsidiary of the Bank of New York Mellon Corporation.

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

Alcentra has regulatory permissions as an investment advisor and discretionary fund manager. Alcentra is considered a BIRPU limited licence firm under Basel II, meaning that it is not authorised to (1) deal on its' own account; or (2) provide the investment services of underwriting or placing financial instruments on a firm commitment basis.

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

Unless otherwise stated all amounts are as of December 31, 2008.

The capital and exposures of all subsidiary undertakings are included in these Pillar 3 disclosures. There is no difference in the basis of subsidiary consolidation for accounting and regulatory purposes.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities when due between the parent undertaking and its subsidiaries. There were no instances where Capital resources were less than the required minimum in any subsidiary undertakings not included in the consolidation.

The group does not make use of the Solo consolidation waiver provisions laid down in BIPRU 2.1.

4. Risk Management Objectives and Policies

4.1. Risk Objectives

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

Alcentra's principal activity is providing investment management services to its clients which are funds holding assets in Collateralised Debt Obligations (CDOs) and Collateralised Loan Obligations (CLOs). The funds are operated by third party service providers. In some instances the third party service provider is a company within the Bank of New York Mellon Corporation. Alcentra also acts as investment adviser to two Investment Managers.

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

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

4.1.1. Business Risk

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

4.1.2. Operational Risk

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

The business managers of Alcentra are responsible for identifying the risks associated with key business processes, identifying and assessing the quality of controls in place to mitigate operational risk, and assigning accountability for the effectiveness of those controls.

Senior Management is responsible for identifying the 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. The objective of this self-assessment is to prevent or minimise losses due to:

- Errors or service delivery failures, especially those with visible impact on customers
- Violating client investment guidelines
- Business Continuity
- Systems failures
- Loss of key staff
- Failure of outsourced service providers

There is no regulatory capital requirement for operational risk due to Alcentra being a BIPRU limited licence firm with a fixed overhead capital requirement.

4.1.3. Compliance Risk

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

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

4.1.4. Credit Risk

Credit Risk covers default risk from counterparties or clients for loans, commitments, securities, and other assets where realisation of the value of the asset is dependent on counterparties' ability to perform. Credit risk is minimal, with exposure limited to receivables from funds (institutional clients) to which Alcentra provides discretionary investment management or advisory services.

4.1.5. Client Concentration Risk

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

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

4.1.6. Other Risks

Failure of IT Systems and Potential Loss of other Services

The company is dependent on its IT systems. The Board assesses the appropriateness of these systems on a regular basis to ensure they are fit for purpose.

4.2. Organisational Structure

Alcentra employs a small number of full time staff, including investment professionals involved with the management of CDO and CLO funds. This established team has a distinctive investment approach that is characterised by rigorous, independent analysis of fund strategies and businesses which include hedge fund techniques in some cases.

Alcentra has two committees which serve in an oversight role for various aspects of its business. The committee members are selected by Senior Management based on expertise and professional experience. The Management Committee, of which the Chief Executive Officer of AAM and Alcentra is a member, sets the strategic objectives and is responsible for key decision making. In addition, the Chief Executive Officer meets with BNYM senior management on a continuing basis, to discuss strategic matters and global synergies.

4.3. Scope and Nature of Risk Reporting Systems

All of AAM's activity is included in Basel II capital reporting (credit and market risk Standardised approach). Operational Risk data is captured on internally developed risk management systems.

4.4. Governance

Policies and procedures are in place to govern and manage the business, which are common to all BNY Mellon entities. Suitable policies and procedures have been adopted by Alcentra in order to ensure an appropriate level of risk management is directed at the relevant element of the business.

The BNYM EMEA (Europe, Middle East, and Africa) Risk Committee has overseen this disclosure for recommendation to the Board of Alcentra. The EMEA Risk Committee has representation from the key risk sources.

Governance of Alcentra is carried out through a regular meeting of the Board of Directors. The Board consists of both Executive and Non-Executive members. Non-Executive members are employees of BNY Mellon Financial Corporation. The Alcentra Board is responsible for the ongoing success and development of the Alcentra business.

The Board of Alcentra reports to the Board of AAM on a regular basis, but Alcentra is the principal operating entity.

Day to day decision making is the responsibility of the executive directors of Alcentra, who comprise the Executive Committee.

The Executive Committee also sits as an Investment Committee when required.

Governance of Alcentra is distinct from the governance of the investment funds for which Alcentra is appointed as investment manager. The governance arrangements established for the investment funds do not include any Alcentra employees. The fund Boards are responsible for monitoring the performance of Alcentra as an investment manager. The clear segregation of responsibility for the governance of Alcentra as a business entity and the fiduciary responsibility for the funds managed by Alcentra ensures that potential conflicts are managed and that the responsibilities of each Board are clear and distinct.

5. Capital Resources

During the year ended 31st December 2008, AAM and Alcentra complied with all of the externally imposed capital requirements to which they were subject.

The following table summarises the composition of AAM and Alcentra's regulatory capital as reported to the FSA as at 31st December 2008. Neither company has any Innovative Tier 1 capital resources, Tier 2 or Tier 3 capital as at 31st December 2008.

Resources	AAM	Alcentra
	£000's	£000's
Tier 1 capital		
Called up share capital	265	1,700
Retained earnings and other reserves	93,750	54,784
Total capital resources	93,845	56,484

1. Figures for Alcentra include audited retained profits for the year to 31 December 2008. Figures for AAM include audited retained profits for the year to 31 December 2008 and are converted from Euros to GBP at the exchange rate of Euro1 = GBP 0.95250.
2. Information about Capital terms and conditions is set out in the Companies Annual Report and Accounts 2008

6. Capital Requirements and Adequacy

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

For Alcentra the Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) has determined that currently there is sufficient capital to support the ongoing and pipeline projected business. The main sources of risk have been identified, assessed (*impact & likelihood* methodology) and approved by the relevant senior managers after taking into account the mitigating controls and rationale for direction of risk, in light of the risk appetite set by the Board.

The following table summarises Alcentra's capital requirements by exposure class and capital adequacy surplus as at 31st December 2008.

Capital requirements	Alcentra
	£000's
Credit risk (1)	3,458
Market risk (2)	3,591
Total	7,049
Fixed Overhead Requirement (3)	1,651
Total Capital Requirements (Higher of 1+2 or 3)	7,049
Capital Surplus	49,435

The Minimum Capital Requirements (MCR) are established with reference to the Credit, Market and Fixed Overhead requirements under Pillar 1 rules for limited licence groups in the UK. The Fixed Overhead Requirement is calculated as 25% of annual expenditure not including variable elements such as incentive based compensation. The total MCR is the higher of Credit plus Market Risk requirements or the Fixed Overhead requirement.

The Market Risk MCR is in respect of the Foreign Currency Position Risk Requirement. The company does not have any other trading positions or need to compute market risk.

As at 31st December 2008, Alcentra has a regulatory capital requirement of GBP 7 million and a surplus regulatory capital of GBP 49 million. Based upon the risk assessment of Alcentra and in view of the capital requirement, it is concluded that Alcentra is more than adequately capitalised.

AAM does not report its capital adequacy to the FSA through consolidated supervision however reports are prepared by Alcentra on a basis consistent with FSA rules. At 31st December 2008, the consolidated figures show AAM had total capital after deductions of GBP 93.8 million (comprised of Tier 1 capital only). AAM had a consolidated Variable Capital Requirement of GBP 14.7 million and an Own Funds surplus of GBP 79.1 million.

7. Credit Risk

Credit Risk for Alcentra is minimal with assets being mostly cash receivables. Further breakdown is not disclosed due to materiality.

As at 31st December 2008, neither AAM nor Alcentra has any impaired assets for which a specific or general provision has been raised. There are no assets past due greater than 90 days. Neither AAM nor Alcentra incurred any write-offs of bad debts or made any recovery of amounts previously written off during the year to 31st December 2008.

8. Market Risk

For regulatory purposes, assets exposed to market risk are risk weighted at 100%. Alcentra's market risk stems primarily from foreign exchange relating to fees receivable in Euros.

9. Operational Risk

There is no regulatory capital requirement for operational risk due to Alcentra being a BIPRU limited licence firm with a fixed overhead capital requirement.

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

10. Other Risks

The management of Alcentra considers that the detailed disclosures under BIPRU 11 about other risks are either not applicable or immaterial and therefore in accordance with BIPRU 11.3.5 and 11.4.1, further disclosure is not necessary.