2013 PILLAR 3 DISCLOSURE

ALCENTRA ASSET MANAGEMENT LIMITED

BNY MELLON

Pillar 3 Disclosure

Pillar 3 disclosures are published in accordance with the requirements of the Prudential Regulation Authority (PRA)/Financial Conduct Authority ('FCA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3).

Policy and Approach

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

The AAM BoD has approved and verified that these disclosures are consistent with formal policies adopted regarding production and validation of content.

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

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

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

Disclosure will be made annually based on calendar year end and will be published as soon as possible after publication of the consolidated audited annual accounts. The company will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about its capital resources, adequacy, information about risk exposure and any other items prone to rapid change.

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 on the Company's website.

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

The BoD may omit one or more disclosures if the information provided is regarded as confidential. 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.

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

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

Table of Contents

1. Introduction

The Bank of New York Mellon (BNY Mellon) is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As at December 31 2013, BNY Mellon had $27.6 trillion in assets under custody and/or administration, and $1.58 trillion in assets under management.

The 2013 Basel II Pillar 3 disclosure relates to Alcentra Asset Management Limited (AAM) as at 31 December, 2013 and is published in accordance with the requirements of the Financial Conduct Authority ('FCA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3). AAM uses the Standardised Approach for calculating credit and market risk.

1.1. 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). The Basel II framework established risk sensitive approach to capital management and is comprised of three pillars:

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

1.2. Highlights and Key Events

This document has been prepared with reference to the specific UK business regulated by the Financial Conduct Authority (FCA)[1] of Alcentra. Alcentra is a wholly owned subsidiary company of AAM. AAM is not authorised to carry out regulated activities. Alcentra did not undertake any significant acquisitions or disposals in 2013 and its assets under management increased by 9% to €8.9Bn (as at 31 December 2013 €8.2Bn) as a result of new fund launches and inflows into existing funds/strategies.

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

During 2013, Paul Hatfield resigned from the Alcentra Board due to being relocated to Alcentra's New York office. The BoD consists of:

- David Forbes-Nixon – Founder and Chief Executive Officer (CEO)
- Robert Bennett – Chief Financial Officer /Chief Operating Officer/ Chief Risk Officer (CFO/COO/CRO)
- James Algar – Chief Compliance Officer (CCO)
- Greg Brisk – Global Head of Risk and Compliance, BNYM Investment Management

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

During the year, Alcentra invested €19.3m in Jubilee XI, a new CLO. Prior to this new CLO Alcentra Limited had not invested equity in any existing CLOs (since seed capital is held in another Alcentra

[1] Financial Conduct Authority (FCA) / Prudential Regulation Authority (PRA) as of 1st April 2013.

entity outside of the UK Alcentra Group), however Article 122a of the Capital Requirements Directive now requires that Alcentra must hold 5% of the economic risk in a CLO to allow European investors to invest without capital penalties. This has resulted in additional credit and market risk for Alcentra that had not existed prior to 2013.

2013 was a strong year for Alcentra being ahead of budget and 2012 results. The main highlights for 2013 are summarised below:

- Management fees of £61.4mn (+12% on 2012)
- Profit for year of £30.4mn (-2% on 2012)
- Net Assets of £114.9mn (+17%)
- Cash balances of £62.5mn (- 28% due to investing seed capital in Jubilee X CLO)
- Strong performance from the CLO platform

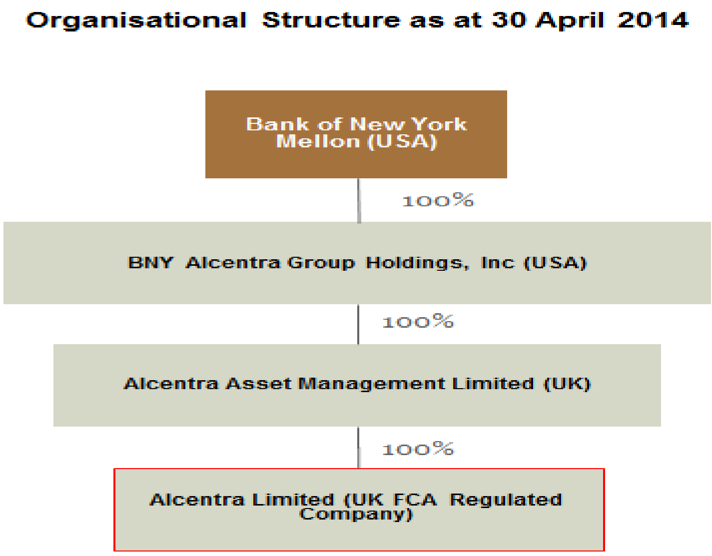
2. Scope and Application of Directive Requirements

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

Alcentra has regulatory permissions as an investment advisor and discretionary fund manager. Alcentra is considered 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.

Figure 1: Organisational structure of Alcentra Group



2.1. Organizational Structure

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

3. Risk Management Objectives and Policies

3.1. Risk Objectives

Alcentra maintains a 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, consistent and repeatable investment processes.

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

3.2. Risk Management Framework and Governance

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

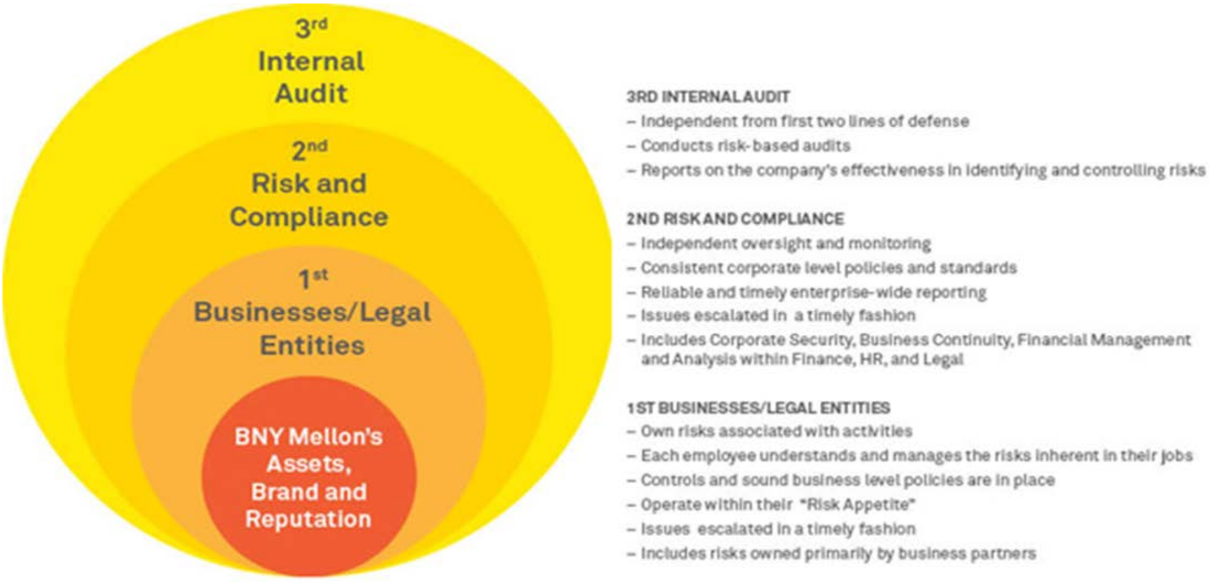
Governance of Alcentra is carried out through a regular meeting of the Board of Directors. The BoD consists of both Executive and Non-Executive members. During 2013 the non-Executive members consisted of employees of BNY Mellon Financial Corporation, however during 2014 two independent Non-Executive members joined the BoD. The Alcentra BoD is responsible for the ongoing success and development of the Alcentra business.

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

Risk Management culture is centred on the Three Lines of Defence (Figure 2).

Figure 2: Three Lines of Defence



3.3. Risk Appetite

BNY Mellon defines risk appetite as the maximum level of risk it is willing to accept while maximising the interests of shareholders and other corporate stakeholders including regulators. Risk appetite is linked to the strategic direction set by senior management and is approved by the BNYMC Board of Directors. Risk appetite considers the balance between risk and reward aligning the strategic goals and the overall risk.

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

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

3.4. Risk Assessment Tools

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

3.4.1. Risk and Control Self-Assessment

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

3.4.2. Key Risk Indicators

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

3.4.3. Operational Risk Events

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

3.4.4. High Level Assessment

On a quarterly basis Risk Management provides a high level risk assessment, which provides a qualitative assessment of the inherent risk, quality of control, residual risk and direction of risk for Operational Risk Basel loss type categories and certain sub-type categories.

3.4.5. Top Risks

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

3.4.6. Stress Testing

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

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

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

3.4.7. Credit Risk

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

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

3.4.8. Credit Risk Management

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

As at 31st December 2013, neither AAM nor Alcentra had any impaired assets for which a specific or general provision has been raised (2012: nil). There are no assets past due greater than 90 days. Neither AAM nor Alcentra incurred any write-offs of bad debts or made any recovery of amounts previously written off during the year to 31st December 2013 (2012 nil).

3.4.9. Credit exposure under Basel II

Credit exposure is computed using the standardised approach. This method for calculating credit risk capital requirement uses regulator prescribed risk weights.

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

The following credit risk exposure tables (1) to (4) summarise the credit exposure for AAM.

i) Standardised gross Credit exposure (EAD pre CRM)

The following table summarises the standardised gross credit exposure by class as at December 31st, 2013.

Table 1: Standardised gross credit exposure

Standardised gross credit exposure by exposure class	Exposure at Default (EAD) pre Credit Risk Mitigation		Average EAD pre CRM		Standardised Credit Risk Capital Requirement	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Central Governments and Central Banks	-	-	-	-	-	-
Institutions	-	-	-	-	-	-
Corporates	62,567	87,486	75,027	63,686	1,001	1,400
Short term claims on Institutions and Corporates	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-
Other	83,776	36,383	60,079	55,589	7,934	2,861
Total	**146,343**	**123,869**	**135,106**	**119,275**	**8,935**	**4,261**

ii) Standardised gross Credit exposure (EAD pre CRM) by industry sector

The following table summarises the standardised gross credit exposure by industry sector as at December 31st, 2013.

Table 2: Standardised pre and post credit exposure by Credit Quality Step 2

Standardised Pre-mitigated Credit Exposures by Credit Quality Step	Central Governments and Central Banks		Institutions: Maturity <= 3m		Institutions: Maturity > 3m		Corporates		Other		Total	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
1	-	-	-	-	-	-	-	-	-	-	-	-
2	-	-	-	-	-	-	62,567	87,486	18,153	-	80,721	87,486
3	-	-	-	-	-	-	-	-	-	-	-	-
4	-	-	-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-	65,622	36,383	65,622	36,383
Total	**-**	**-**	**-**	**-**	**-**	**-**	**62,567**	**87,486**	**83,776**	**36,383**	**146,343**	**123,869**

Standardised Post-mitigated Credit Exposures by Credit Quality Step	Central Governments and Central Banks		Institutions: Maturity <= 3m		Institutions: Maturity > 3m		Corporates		Other		Total	
(£000s)	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
1	-	-	-	-	-	-	-	-	-	-	-	-
2	-	-	-	-	-	-	62,567	87,486	18,153	-	80,721	87,486
3	-	-	-	-	-	-	-	-	-	-	-	-
4	-	-	-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-	-	-	-	-	-
Unrated	-	-	-	-	-	-	-	-	65,622	36,383	65,622	36,383
Total	**-**	**-**	**-**	**-**	**-**	**-**	**62,567**	**87,486**	**83,776**	**36,383**	**146,343**	**123,869**

Note: AAM did not make use of any mitigating technique in 2013.

iii) Standardised gross Credit exposure (EAD pre CRM) by geographical area

The following table summarises the standardised gross credit exposure by geographic area as at December 31st, 2013.

Table 2: Standardised gross credit exposure by geographic area

Standardised exposure classes	Europe		Americas		Africa		Asia Pacific		Total	
(£000s)	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Central Governments and Central Banks	-	-	-	-	-	-	-	-	-	-
Institutions	62,567	87,486	-	-	-	-	-	-	62,567	87,486
Corporates	-	-	-	-	-	-	-	-	-	-
Short term claims on Institutions and Corporates	-	-	-	-	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-	-	-	-	-
Other	82,096	34,622	1,680	1,761	-	-	-	-	83,776	36,383
Total	**144,663**	**122,108**	**1,680**	**1,761**	**-**	**-**	**-**	**-**	**146,343**	**123,869**

iv) Standardised gross Credit exposure (EAD pre CRM) by residual maturity

The following table summarises the standardised gross credit exposure by residual maturity as at December 31st, 2013.

Table 4: Standardised gross credit exposure by residual maturity

Standardised gross credit exposure by residual maturity	Less than 3 months		3 months to 1 year		Over 1 year or undefined		Total	
(£000s)	2013	2012	2013	2012	2013	2012	2013	2012
Central Governments and Central Banks	-	-	-	-	-	-	-	-
Institutions	62,567	87,486	-	-	-	-	62,567	87,486
Corporates	-	-	-	-	-	-	-	-
Short term claims on Institutions and Corporates	-	-	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-	-	-
Other	12,214	10,601	19,950	14,346	51,612	11,436	83,776	36,383
Total	**74,781**	**98,087**	**19,950**	**14,346**	**51,612**	**11,436**	**146,343**	**123,869**

3.4.10. Market risk

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

Alcentra's market risk stems from foreign exchange relating to fees receivable in Euros and from seed capital investments in CLO tranches. Much of the foreign exchange market risk was eliminated following the introduction of Foreign Exchange (FX) hedging at the Alcentra Ltd level in March 2010.

3.4.11. Operational risk

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

3.4.11.1. Operational Risk Management

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.

3.4.12. Liquidity risk

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

3.4.12.1. Liquidity Risk Management

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

BNYM firms are required to have in place robust strategies, policies, processes and systems to identify, measure, manage and monitor the liquidity risks to which they may be exposed, including intra-day risk. Firms must have reliable management information to ensure appropriate and timely forward-looking information on the liquidity risk of the firm and early warning indicators to identify increases in liquidity risk.

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

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

On a day to day basis, liquidity and funding requirements are actively managed by the Senior Management. Alcentra as a regulated firm falls under an EMEA Programme designed to ensure that each firm complies with new FCA Liquidity Standards (PS 09/16) issued in October 2009. This is an ongoing Programme of work which, with respect to Alcentra (a Limited Licence BIPRU investment firm) is currently focused at the firm level on ensuring compliance with the FCA BIPRU 12 Systems and Controls standards and the first reporting requirement under the new FCA regime.

FCA Systems and Control requirements oblige the governing body (i.e. Board of Directors (BoD)) to express and check conformity with the firm's liquidity risk appetite. The outputs of the firm's stress testing should inform the governing body's decisions on whether the firm's liquidity risk appetite should be amended and must form the basis of a Contingency Funding Plan.

A common *Liquidity Risk Management Framework* (LRM) and Operating Model applies to all BNYM Limited Licence BIPRU investment firm tailored to fit local circumstances. In overview, this LRM framework comprises:

- A regime of senior management oversight and governance of LRM (including defining risk strategy, setting risk appetite and tolerance (limits and triggers)) and, tracking performance.
- a firm-specific liquidity policy that conforms with Group requirements (including pricing of liquidity risk, management of intra-day liquidity risk and funding diversification and market access); and,
- a regime of periodic reporting to senior management of Mismatch Cash flow data across a 12 month time horizon and firm-specific liquidity performance ratios including assessment of the likely survival period under current conditions.

Stress testing capability at the firm level and preparation of a Contingency Funding Plan is currently under development in accordance with the FCA's regime transition timetable. This includes creation by senior management of firm-specific and market wide stress scenarios and liquidity risk assumptions which will be modelled across short term (up to two weeks) and protracted (from two weeks to 3 months) time horizons.

Alcentra does not have any collateral positions to manage, nor is it necessary for the firm to actively manage liquidity across legal entities, business lines or currencies. Metrics about each firm's liquidity position are reported to EMEA ALCO.

In terms of global liquidity management, BNYMC enjoys a strong base of core client deposits for its funding which arises from its role as a leading asset custodian and trustee. BNYMC does not rely on either retail funding or wholesale funding in its business model. Asset/liability management is managed globally through treasury activities in key financial centers, such as New York, London and Brussels, and is driven by client cash needs and transactions.

3.4.13. Compliance Risk

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

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

3.4.14. Client Concentration Risk

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

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

3.4.15. Business Risk

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

3.4.16. Other risks

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

4. Capital Adequacy

4.1. Capital Resources

During the year ended 31st December 2013, AAM and Alcentra complied with all of the externally imposed capital requirements to which they were subject.

The following table summarises the composition of the Alcentra's regulatory capital as reported to the FCA as at 31st December 2013. Alcentra does not have any Innovative Tier 1, Tier 2 or Tier 3 capital resources as at 31st December 2013.

Table 5: Capital resources

As at 31 December Capital Resources (£000s)	Alcentra 2013	2012
Tier 1 Capital		
Called up Share Capital	1,700	1,700
Retained Earnings and other Reserves	116,345	96,939
Total Tier 1 Capital	118,045	98,639
Deductions from Tier 1 Capital		
Intangible Assets	-287	-617
Total Tier 1 Capital after deductions	117,758	98,022
Tier 2 Capital		
Lower Tier 2 Capital		
Deated subordinated debt	-	-
Total Tier 2 Capital	-	-
Deductions from total of tiers 1 and 2 capital		
Connected lending of a capital nature	-	-
Total Deductions from total of tiers 1 and 2 capital	-	-
Total Capital Resources	**117,758**	**98,022**

Note - capital resources differ from those reported in FSA003 since the statutory audited was completed before preparation of Pillar 3 disclosure but after filing of FSA 003.

4.2. Risk Weighted Assets

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

Table 6: Risk Weighted Assets by risk type

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

5. Capital Requirements and Adequacy

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

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

The following table summarises the Pillar 1 capital requirement of Alcentra by exposure class and as at 31st December 2013.

Table 7: Capital Adequacy

As at 31 December Capital Requirements and Adequacy (£000s)	Alcentra 2013	 2012
Credit Risk Standardised Approach		
Central Governments and Central Banks	-	-
Institutions	1,001	1,400
Corporates	-	-
Short term claims on Institutions and Corporates	-	-
Collective Investment Undertakings	-	-
Other	7,934	2,861
Total Credit Risk capital requirement	8,935	4,261
Fixed Overhead Requirement	4,231	3,326
Market Risk		
Investment risk	1,513	-
Foreign currency Position Risk Requirement	256	1,781
Total Market Risk capital requirement	1,769	1,781
Total Pillar 1 Capital Requirements	10,704	6,042
Total Capital Resources	117,758	98,022
Capital surplus	107,054	91,980
Total Capital Resources / Total Pillar 1 Capital Requirements	**107,054**	**91,980**

Note - resources differ from those reported in FSA003 since the statutory audited was completed before preparation of Pillar 3 disclosure but after filing of FSA 003.

Total Pillar 1 requirements are based on the higher of credit (+) market risk and fixed overhead requirements.

6. Remuneration Disclosure

6.1. Governance

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

The members of the HRCC are non-executive board members, delegated by BNY Mellon's Board of Directors to act on behalf of the Board on remuneration matters.

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

To ensure alignment with local regulations in BNY Mellon's EMEA (Europe, Middle-East and Africa) region, the EMEA Remuneration Governance Committee (ERGC) was set-up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses, including Alcentra.

6.2. Aligning pay with performance

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

By implementing our compensation philosophy and principles, we align the interests of our employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value, by rewarding success and by ensuring that our incentive compensation arrangements do not encourage our employees to take unnecessary and excessive risks that threaten the value of BNY Mellon or benefit individual employees at the expense of shareholders or other stakeholders.

6.3. Remuneration components

Fixed remuneration: -

is composed of (i) salary, (ii) any additional 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, for all staff, at a rate to be at all times sufficient to provide for full flexibility in the variable remuneration, including a zero variable remuneration.

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 our annual Proxy Statement to shareholders.

6.4. Variable compensation funding and risk adjustment

The staff of Alcentra are eligible to be awarded variable compensation. Such variable compensation consists of both cash and deferred components and is determined by the functional hierarchy of the business or business partner service to which the individual staff member belongs, and in accordance with the terms and conditions of the incentive compensation plan that is applicable for the business or business partner service.

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

Furthermore, BNY Mellon requires employees who receive awards to agree to clawback and/or forfeiture provisions on such awards in the event of fraud or conduct contributing to financial restatement or other irregularities.

6.5. Deferral policy and vesting criteria

The deferred component of the variable compensation award is generally delivered as deferred cash invested in an appropriate vehicle which is considered suitable. The percentage of the variable compensation award to be deferred depends on the level of the position and the amount of the award.

6.6. Variable remuneration of control function staff

The variable compensation awarded to control function staff (e.g. audit, legal and risk) is dependent on performance which is assessed according to the achievement of objectives specific to their functional role which is independent of the activities they oversee. This remuneration is benchmarked against the market level and funded independently of individual business line results and adjusted based on BNY Mellon's overall annual financial performance.

6.7. Quantitative Remuneration Disclosure

The tables below provide details of the aggregate remuneration of Code Staff for Alcentra for the year ending 31 December 2013.

The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of Alcentra, to reflect the full reporting period.

Table 8: Aggregate remuneration expenditure for Code Staff in 2013 by business[1]

The code staff remuneration expensed within the AAM group was £4.2m.

	Alcentra		
	Investment Management £000s	Other[2] £000s	Total £000s
	5,305	5,367	10,672

1. Includes base salary and other cash allowances, plus any cash incentive and the total of any awards made in BNY Mellon shares or options, valued at the date of grant.
2. Includes all support functions and general management positions.

Table 9: Aggregate remuneration expenditure for Code Staff in 2013 by remuneration type

	Alcentra		
	Senior Management[1]	Other Code Staff	Total
Number of beneficiaries	5	-	5
Total remuneration (£000s)	10,672	-	10,672

1. Senior Management is comprised of legal directors and those holding the corporate title of Executive Vice President.

7. Glossary of Terms

The following terms are used in this document:

AAM	Alcentra Asset Management Limited
Alcentra	Alcentra Limited
ALCO	Asset and Liability Committee
Basel II	The June 2006 capital adequacy framework issued by the Basel Committee on Banking Supervision in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
BIPRU	The FCA's rules, as set out in Prudential Sourcebook for Banks, Building Societies and Investment Firms.
BNYM	Bank of New York Mellon Corporation
BoD	Board of Directors
CLO	Collateralised Loan Obligations
Core equity tier 1 capital	Tier 1 capital less innovative tier 1 securities and preference shares.
CRD	Capital Requirements Directive
CRM	Credit risk mitigation – A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection
EAD	Exposure at default
Exposure	A claim, contingent claim or position which carries a risk of financial loss
FCA	The Financial Conduct Authority (United Kingdom)
Institutions	Under the Standardised approach, Institutions are classified as credit institutions or investment firms.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
Risk appetite	A definition of the types and quantum of risks to which the firm wishes to be exposed.
Standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
Tier 1 and Tier 1 capital	Have the meanings given to such terms in the General Prudential Sourcebook (as set out in the FCA's Handbook).
Tier 2 capital	Has the meaning given to this term in the General Prudential Sourcebook (as set out in the FCA's Handbook).

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2013 PILLAR 3 DISCLOSURE

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