THE BANK OF NEW YORK MELLON

BNY Holdings UK Limited

Pillar 3 Disclosures for the year ended 31st December 2008

31st March 2009

About Pillar 3 Disclosure

A. Alignment of disclosures within UK regulated entities

The British Bankers Association Pillar 3 Working Party, comprised of a number of UK banks 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 banking groups 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 Board of Directors (BOD) who have verified that they are consistent with formal policies adopted regarding production and validation.

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.

BNY Holdings UK Limited

Pillar 3 Disclosures for the year ended 31st December 2008

Contents

1. Introduction

These disclosures are about **BNY Holdings UK Limited ('BNYH')** 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*). Pillar 3 disclosures are made in respect of BNY Holdings UK Limited and its subsidiary undertakings (together the 'group'). BNYH implemented the Basel II Standardised Approach for calculating credit, market and operational risk on 1st January 2008.

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) 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, Market and Operational Risk.
- **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 BNYH'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 to make comparison.

2. Scope and Application of Directive Requirements

BNYH is a wholly owned subsidiary of BNY International Financing Corporation which is, in turn, a subsidiary of The Bank of New York Mellon Corporation. BNYH is an intermediate holding company only with no direct operational activities and it consolidates the financial impact of activities mainly arising from its principal wholly owned UK registered subsidiary **The Bank of New York Mellon (International) Limited ('BNYMI')**. Reference to BNYH in an operating capacity in this paper essentially refers to BNYMI which, from a consolidated perspective comprises substantially all of the group activity.

Other consolidated subsidiaries include: BNY Trust Company Limited and The Bank of New York Trust & Depositary Limited) and, the following Irish subsidiaries, BNY Securities (Ireland) Limited, BNY Trust Company (Ireland) Limited, BNY Fund Services (Ireland) Limited and Renvy Limited.

Through its operating subsidiaries, BNYH group provides custody services, fund administration and transfer agency services, investment administration services, trustee services to both authorised and unauthorised unit trusts and, depository services to open-ended investment companies. The capital and exposures of all subsidiary undertakings are included in these 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 during 2008 where Capital resources were less than the required minimum in any subsidiary undertakings not included in the consolidation.

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

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3. Risk Management Objectives and Policies

3.1. Risk Objectives

BNYH, through its operating entities seeks to proactively manage and minimise risks specifically, credit, operational, compliance, and business risks.

BNYMI operates primarily in the Asset Servicing sector of The Bank of New York Mellon Corporation (BNYMC). The designated risk specialist for the Sector has been closely involved in the risk assessment processes (further described in the Internal Capital Adequacy Assessment Process (ICAAP)). The methodology applied in BNYH's current and prospective operations to identify risks and assess the quality of controls is driven by a line of business self assessment that is overseen by independent Sector Risk Management.

The BNYM EMEA (Europe, Middle East, and Africa) Risk Committee ('EMEA RC') has overseen this disclosure for recommendation to the Board of BNYH.

The Co-Chairs of the EMEA region head up the EMEA Risk Committee, which serves as an independent regional controls forum. This committee consists of senior managers across the lines of business and shared services (e.g. Compliance). The committee discusses trends and themes that pose franchise-level risk within the EMEA region.

The ICAAP considers the above arrangements as a key input into its assessment of risk effectiveness.

The EMEA Risk Committee has overseen the completion of the Pillar 3 disclosures for recommendation to the Board of BNYH.

BNYH considers that the regulatory capital treatments generally provide an adequate cushion to meet 'business as usual' risks or risks arising from stressed events. Current and projected capital adequacy has also been assessed under a severe economic downturn scenario and was found to be adequate.

3.1.1. 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 seen as relatively low, given a BNYH deposit focused liability driven balance sheet. No wholesale funding is currently required. Placements are short term in tenor and are provided to credit assessed, high quality counterparties only. Even so, limits and tolerances are used daily to monitor counterparty exposures

3.1.2. Market Risk

Market risk is the potential adverse change in income or in the value of assets and liabilities arising from movements in market rates, including interest rates, exchange rates, equity prices and indexes.

BNYH market risk reflects exposure to interest rate and foreign exchange mismatches. The Board assess this as low risk to the capital of the group. BNYMI seeks to keep mismatch interest rates to a minimum. Daily controls are in place to evaluate exposure and metrics are provided to Senior Management for comparison against risk tolerance.

3.1.3. 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 level of BNYH's residual operational risk is managed by rigorous operating policies, procedures and controls set by BNYMC and implemented by Sector Risk Management.

BNYH business managers are responsible for risk control self assessment, which includes identification of the risks associated with key business processes, identifying and measuring the effectiveness of controls in place to manage risk and for remediation of any weakness.

The Sector Risk Manager oversees the output and recording of this assessment with support and approval of Senior Management.

3.1.4. Compliance Risk

Compliance Risk covers the impact on 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).

It is the policy of The Bank of New York Mellon Corporation to comply with all laws and regulations. The goal of BNYMC's compliance process is to ensure that all compliance responsibilities, enterprise-wide, are defined, understood, and met effectively through well-designed policies and procedures, by knowledgeable and trained employees, and through effective controls, including appropriate assessment, testing and documentation of procedures and remediation of any weakness.

As a subsidiary of BNYMC, BNYH and its Group is subject to a number of corporate compliance policies and benefits from corporate wide training around compliance and ethics matters. An independent Compliance function oversees the regulated firms operating within BNYH and its Group. The role of the Compliance function is to provide leadership, guidance, and oversight to help business units identify applicable laws and regulations and implement effective measures to meet the specific requirements, including the execution of a risk based compliance monitoring programme, the results of which are escalated to senior management. Compliance takes a proactive approach by anticipating evolving regulatory standards and being aware of industry best practices, legislative initiatives, competitive issues, and public expectations and perceptions.

The Compliance function is part of a global compliance organisation which reports through the Head of International Compliance to the Chief Compliance and Ethics Officer for The Bank of New York Mellon Corporation. The Chief Compliance and Ethics Officer reports to the Chief Risk Officer, is a member of all critical committees of BNYMC and provides regular updates to the group Audit & Examining Committee of the Board of Directors.

3.1.5. Liquidity Risk

Liquidity risk is the current or prospective risk to earnings and capital arising from an institution’s inability to meet its liabilities when they fall due.

In terms of global liquidity management, BNYMC enjoys a strong base of core client deposits for its funding that arise 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 centres, such as New York, London and Brussels, and is driven by client cash needs and transactions. BNYH is self-sufficient within the group liquidity framework and complies with local capital and liquidity regulations. On a semi annual basis entity stress testing is undertaken to demonstrate continued liquidity adequacy and to evaluate the impact under stress conditions. The main operating entity, BNYMI maintains daily liquidity ratios and tracks its depositors demands in terms of tenor, thus minimising mismatch risk.

3.1.6. Business Risk (Client Concentration)

Business Risk is the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

The primary risk is a fall in revenue arising from a loss of a concentration of clients exiting from the Custody and Outsourced Administration Services businesses that underpin the capital of the Group. As part of the ICAAP Pillar 2 scenario testing, concentration risk is considered and mitigating action is identified.

BNYH has limited tolerance towards client concentration risk and has taken steps internally and through widening its client base, by winning new Custody or Outsource administration services mandates, to mitigate exposure.

3.2. Scope and Nature of Risk Reporting Systems

All of BNYH group activities are included in Basel II capital reporting (credit and market risk Standardised approach). Operational Risk data is captured on internally developed risk management systems.

3.3. Governance, Policies & Risk Management Structure

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

The Board has both governance and decision making functions. In the opinion of the Board, such arrangements and independent oversight activities are adequate for the effective management of risks to the business.

The Risk Management organisation is based on a tiered approach, including Corporate, Sector, Line of Business and risk specialists (e.g.: credit risk). Within EMEA region there is a further EMEA Risk Management oversight layer whose responsibilities include ensuring that Line of Business implement policies and procedures on a consistent basis.

The Board has delegated to the The BNYM EMEA (Europe, Middle East, and Africa) Risk Committee ('EMEA RC') oversight of Risk Management, while retaining ownership and responsibility. To further strengthen this framework, embedded Risk Managers working closely with business line management oversee day to day risk management controls, monitor the Key Risk Indicators and oversee the effective management of operational events. As a global business, BNYMC organises its activities into sectors eg: Asset Servicing. Each Sector has its own independent risk management arrangements covering, amongst others the implementation of corporate risk policies and processes that identify risk.

The Board will generally meet on a quarterly basis and receive reports from Risk Management, Compliance, Finance and Audit to evaluate the effectiveness of the existing control environment and ensure that they are being actioned effectively and in a timely manner. In the opinion of the Boards of Directors such arrangements and monitoring activities are adequate for the effective operation of the businesses within the U.K.

4. Capital Resources

During the year ended 31st December 2008, the BNYH group and individual entities within the group complied with all of the externally imposed capital requirements to which they were subject.

The following table summarises the composition of the BNYH group and significant subsidiary company's regulatory capital as reported to the FSA as at 31st December 2008. The group did not have any Innovative Tier 1 capital resources or Tier 3 capital as at 31st December 2008.

Capital Resources (unaudited)	Notes	BNYH group	BNYMI
		£000's	£000's
Tier 1 capital			
Called up share capital		248,915	200,000
Retained earnings and other reserves		-28,356	-20,603
Unaudited net profits	*1*		
		220,559	179,397
Deductions from Tier 1 capital			
Intangible assets	*2*	-47,658	-1,050
Total Tier 1 capital after deductions		**172,901**	**178,347**
Tier 2 capital			
Lower Tier 2 capital			
Dated subordinated debt		40,000	
Total Tier 2 capital		**40,000**	**0**
Total capital resources		**212,901**	**178,347**

1. Unaudited Profits are not reported to the FSA as part of Tier one capital. As of the date of this report, 2008 profits have not been audited and are therefore excluded from capital.

2. Intangible assets comprise mostly goodwill.

3. Information about Capital terms and conditions is set out in the Companies Annual Report and Accounts 2008

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 and stress conditions.

For BNYH 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 the BNYH group and significant subsidiary company's capital requirements by exposure class and capital adequacy surplus as at 31st December 2008.

Exposure class (unaudited)	Notes	Capital requirements	
		BNYH group	BNYMI
		£000's	£000's
Credit Risk - Standardised approach			
Institutions		2,473	1,700
Corporates		192	240
Short term claims on Institutions & Corporates		27,405	27,405
Collective Investment undertakings		1,337	1,337
Other Items	*1*	20,500	15,363
Total Credit risk capital requirements		**51,907**	**46,045**
Operational Risk - Standardised approach		**21,156**	**18,520**
Market Risk			
Foreign currency Position Risk Requirement	*2*	1,831	1,831
Total Market risk capital requirements		**1,831**	**1,831**
Total Pillar 1 capital requirement		**74,894**	**66,396**
Capital surplus		**138,007**	**111,951**

1. Other Items capital requirement is principally with respect to miscellaneousTrade and other debtors, interest and accounts receivable and prepayments and a capital charge in respect of fixed assets

2. The group does not take trading positions and does not have market risk exposure except for Foreign currency exposure arising from day to day activities.

There were no retail or material equity exposures as at 31st December 2008.

6. Counterparty Credit Risk

Counterparty credit risk (CCR) in the context of Pillar 3 disclosure is the risk that a counterparty to a derivative contract recorded in either the Trading Book or Banking Book could default before settlement of the transaction's final cash flows. As at 31st December 2008, the group did not have a Trading book and did not have any derivatives in a Banking book and therefore no further disclosure is required.

7. Credit Risk and Dilution Risk

7.1. Structure

Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the bank as and when they fall due.

BNYMI Credit unit is strongly embedded in the Risk Sector of the parent bank with certain Credit Officers having responsibilities across both the parent and the subsidiary. The Risk Sector identifies two broad types of Credit Risk:

- '*A*' Credit, where formal facilities are agreed and, usually, advised to the counterparty; and
- '*B*' Credit, where credit exposures arise through operational activity in support of activities which do not, of themselves, require formal credit facilities, most typically securities settlements.

The majority of bank counterparty exposures falls under '*A*' Credit, whilst most client exposure arises under '*B*' Credit.

'*A*' Credit exposures are managed by dedicated teams specialising in geographic areas or sector, as appropriate. '*B*' Credit is managed by teams who have experience in the processing flows to understand and recognise risks which may arise. Informal, internal Guidance limits are established where appropriate to manage these risks. All credit limits are approved by Risk Sector officers. A specific Credit Officer in the United Kingdom is designated as 'gatekeeper' of all credit within BNYMI.

Credit exceptions, should they occur, are reported to EMEA Risk Committee along with other European exceptions.

BNYMI does not actively seek to assume Credit Risk, but does so as a result of its Securities Processing activity. It will, however, assume Credit Risk to support its Clients in connection with their Securities holdings.

All clients and banks are assessed and allocated a borrower rating in accordance with the parent's rating system. This utilises a variety of inputs to achieve a consistent rating across all counterparty types on a 1 -18 scale. Credit decisions are based on independent credit risk analysis, supplemented by the output of internal ratings tools and external rating agency analysis, where available. Use of outputs from external agency ratings are always open to revision by the Credit Officer. Limits are set against each client as necessary using a combination of system driven tools and individual assessment by the bank's credit officers.

Monitoring & 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 the light of individual circumstances. Post event monitoring is also conducted by both Client Service areas and the Credit function.

There are two principal types of Credit Risk counterparties:

Banks

- **Money Market**

  The majority of Credit Risk assumed by BNYMI is in placing monies with banks for fixed terms or overnight; this may be by way of cash placement or by purchase of Certificates of Deposits issued by these banks. Currently no Certificates of Deposit are held.

  BNYMI makes extensive use of The BNY Mellon Group's expertise and knowledge in assessing the credit quality of these banks. The parent has relationships with, and limits for, all banks for which BNYMI has limits established. BNYMI limits are operated as sub-limits within the overall limit approved by the parent. Utilisation is monitored intraday and any requests to exceed a limit are referred to and decided upon by a dedicated credit officer.

- **Nostros**

  BNYMI utilises a number of banks around the world to maintain accounts to enable it to transfer monies cross-border. These accounts are maintained at the minimum possible level, commensurate with smooth operation of client and own funds needs. The banks used are all major banks in the relevant country.

Clients

- **Daylight (intraday) Overdrafts**

  Daylight overdraft limits are set for each client as a percentage of a client's assets under custody (subject to certain maximum levels); all cash payments are checked against this limit on a real-time basis. Any excesses are referred to a Credit Officer for approval or otherwise, depending on circumstances. In rare instances a specific manual fixed limit may be agreed after due consideration by an appropriate Credit Officer; again all cash payments are checked against this limit, prior to payment.

  These arrangements allow clients to access proceeds of sales, or other expected funds, even though in many markets the proceeds are not formally received until late in the day.

- **Overdrafts**

  BNYMI makes full use of its parent's expertise in securities-related lending. In a few instances formal overdraft facilities have been agreed for specific clients at their request to allow some gearing of the portfolio. Each request is considered individually by specialist analysts in relation to the make up of the portfolio, amount requested, percentage of assets value requested and other factors. Approval is in the hands of a totally independent Credit Officer, with specialist understanding of the collective funds/investment industry. Such overdrafts are restricted to 35% of asset value.

BNYMI does not engage in hedging its Credit risk as it believes the policies in place are sufficient to ensure adequate credit quality. Should the situation arise where this became necessary, BNYMI could call upon the expertise of its parent in these matters.

7.2. Credit risk exposure under Basel II

Credit exposure is computed under the Standardised approach.

Exposure

The definition of exposure used in this report is consistent with that recommended by the BBA Pillar 3 Working party. 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 (eg 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 tables (i-iv) (unaudited) are about **The Bank of New York Mellon (International) Limited ('BNYMI')** which is the principal operating entity within the group.

i. Standardised gross Credit exposure (EAD pre CRM)

As at 31st December 2008

Standardised exposure classes	BNYMI EAD pre CRM	BNYMI Average EAD pre CRM
	£000's	£000's
Central governments & central banks	11,801	19,815
Regional governments & Local authorities	0	75
Institutions	106,204	123,185
Corporates	8,091	49,150
Short term claims on Institutions & Corporates	1,712,735	2,036,669
Collective Investment Undertakings	16,707	58,723
Other items	183,850	159,449
Total	**2,039,388**	**2,447,066**

Standardised exposure classes are defined by FSA in BIPRU 3

Other items principally comprises Trade and other debtors, interest and accounts receivable and prepayments

Average exposure is based on a 13 month average, December 07 to December 2008

ii. Standardised gross Credit exposure (EAD pre CRM) by geographic area

As at 31st December 2008

Standardised exposure classes	UK	Europe, Middle East & Africa	North America	Asia Pacific	BNYMI Total
	£000's	£000's	£000's	£000's	£000's
Central governments & central banks		11,801			11,801
Institutions	106,204				106,204
Corporates	5,262	2,829			8,091
Short term claims on Institutions & Corporates	1,332,948	365,983	2,478	11,326	1,712,735
Collective Investment Undertakings	14,855	1,852			16,707
Other items	183,850				183,850
Total	**1,643,119**	**382,465**	**2,478**	**11,326**	**2,039,388**

Geographic distribution is based on the domicile of the borrower or obligor

iii. Standardised gross Credit exposure (EAD pre CRM) by Industry sector

As at 31st December 2008

Industry sector	Central gov'ts & central banks	Institutions	Corporates	Short term claims on Institutions & Corporates	Collective Investment Undertakings	Other items	BNYMI Total
	£000's	£000's	£000's	£000's		£000's	£000's
Central & local government	11,801						11,801
Insurance companies & Pension funds			8,061		16,707		24,768
Banks & Other financial		106,204		1,712,735			1,818,939
Other business activities						183,850	183,850
Other individual Loans & Advances			30				30
Total	**11,801**	**106,204**	**8,091**	**1,712,735**	**16,707**	**183,850**	**2,039,388**

Industry sectors are based on the Standard Industry Classification (SIC) code of the counterparty

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

As at 31st December 2008

Standardised exposure classes	On demand	Up to 1 year ex on demand	Undated	BNYMI Total
	£000's	£000's	£000's	£000's
Central governments & central banks	11,801			11,801
Institutions	747		105,457	106,204
Corporates	8,091			8,091
Short term claims on Institutions & Corporates	1,068,125	644,610		1,712,735
Collective Investment Undertakings	16,707			16,707
Other items		183,850		183,850
Total	**1,105,471**	**828,460**	**105,457**	**2,039,388**

Exposures are allocated to maturity bands based on the residual contractual maturity dates and not expected or behaviourally adjusted dates.

7.3. *Impaired and Past Due Assets and Provisions*

For BNYMI, specific provisions are made against an asset when, in the opinion of the Directors, recovery in full is doubtful. A general provision may be made to cover bad and doubtful debts that have not been separately identified at the balance sheet date.

As at 31st December 2008, BNYMI had no impaired assets for which a specific or general provision had been raised. There were no assets Past due greater than 90 days. BNYMI did not incur any write-offs of bad debts or make any recovery of amounts previously written off during the year to 31st December 2008.

7.4. *Credit Risk Standardised Approach*

Credit exposure is computed under the Standardised Approach. The group uses external credit assessments provided by Fitch, Moody's, and Standard and Poor's to determine the risk weighting of exposures in its portfolios depending on counterparty type and coverage. Fitch is preferred for banks. Fitch, Moody's and Standard and Poor's are all recognised by the FSA as eligible External Credit Assessment Institutions (ECAIs) for the purpose of calculating credit risk requirements under the standardised approach.

All ECAI ratings are subject to validation or amendment by the appropriate Credit Officer.

The following disclosure (i) about BNYMI is presented for the most significant exposure class and reflects exposures pre and post CRM associated with each credit quality step prescribed in BIPRU 3.

i. Standardised exposure by Credit Quality Step
Short term claims on Institutions and Corporates

Exposures as at 31st December 2008

Credit Quality Steps	Risk weight	EAD pre CRM	BNYMI EAD post CRM
	%	£000's	£000's
CQS 1	20%	1,030,277	1,030,277
CQS 2	20%	532,449	532,449
CQS 3	20%	150,009	150,009
Total		**1,712,735**	**1,712,735**

The above credit quality steps are equivalent to the following ECAI grades

Credit Quality Step	Fitch	Moody's	S&P
CQS 1	AAA to AA-	Aaa to Aa3	AAA to AA-
CQS 2	A+ to A-	A1 to A3	A+ to A-
CQS 3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-

8. Market Risk

The majority of market risk exposure relating to BNYMI's business is borne by its clients.

BNYMI does not take trading positions and therefore does not have market risk exposure apart from foreign currency position risk arising from day to day activities.

BNYH and its operating entities have limited tolerance for market risk and do not engage in proprietary trading. The firm uses the U.S. Group Value at Risk (VaR) modelling techniques to monitor on a daily basis its exposures to foreign exchange mismatches. At least annually it also undertakes multiple sensitivity limits and stress testing across such exposures.

9. Operational Risk

For the purposes of calculating a Pillar 1 capital charge under the Basel II Standardised Approach it has been determined that BNYMI falls under the Agency Services Basel business line which is weighted at 15%.

The BNYMC group has set extensive Operational risk policies that have been adopted by the operating entities within the BNYH group. Risk Management governance and oversight is organised on a global platform and within Europe at both the country and sector levels. Risk managers embedded within the operating entities work closely with business line management to identify risks, monitor key risk indicators and record and evaluate any operational events that arise.

Corporate Risk Management has developed the methodology that supports the risk assessment process. The Board has approved the methodology as a basis of input into the Pillar 2 processes. Independent Sector Risk Managers, in conjunction with the Business management, are responsible for advising on the completion and findings of the risk self assessment process.

The self assessment process is aligned against global sector lines of business. BNYH and its subsidiaries operate within the Asset Servicing sector. The performance of self assessment by line of business is recorded on a globally maintained platform. Platforms also capture key risk indicators and operational risk events (losses, gains and near misses). Business managers are responsible for performance of self assessment, which is identifying the risks associated with key business processes, identifying and assessing the quality of controls in place to mitigate risk, and assigning accountability for maintaining the effectiveness of those controls and remediation of any weakness. The Sector Risk Manager oversees the output and recording of this assessment with support and approval of Senior Management.

The objective of operational risk management is to prevent or minimise:

- Errors or service delivery failures
- Financial Losses or near miss events
- Compliance Breaches
- Reputation Damage

10. Non-trading book exposures in equities

As at 31st December 2008, BNYMI had equity shares amounting to £56,000 intended for use on a continuing basis in the group's activities and which were classified as investment securities and were stated at cost less provision for any impairment in value. All equity shares are unlisted. In the opinion of the directors, the fair value of the investment is the same as the balance sheet carrying value and market value. The company did not recognise any gains or losses from the sale of equities in the non-trading book during the year ended 31st December 2008.

11. Interest Rate Risk in the non-trading book

BNYMI incurs such risk in placing funds with a range of high quality banks for periods up to one year, although in practice much shorter terms are invariably used. The majority of funding for such placements arises from overnight client funds, representing a mis-match risk.

This risk is measured and controlled by means of a Value at Risk (VaR) limit, incorporating all relevant and material data. The VaR exposure is calculated in accordance with the parent bank's methodology which is subject to continuous validation by a team of specialists in the USA. Briefly, the VaR methodology employs a Monte Carlo simulation using 1000 scenarios and provides a 99.9% confidence level. The VaR limit is set at a level which will not materially impact BNYMI's capital position.

In addition to the VaR methodology, a number of nominal limits are in place to limit the extent of any Interest Rate mis-match. These limits are linked to levels of client deposit and time-bands.

These exposure are monitored daily by a Risk Officer with regular reports made to EMEA Risk Committee.

The following table shows the change in earnings as at 31st December 2008 given a 200 basis point shift in interest rates up and down, by currency and reflects a substantially matched book

Increase / (decrease) in earnings
As at 31 December 2008

Currency	BNYMI	
	+200 basis point increase in yield curve	**-200 basis point decrease in yield curve**
	£000's	£000's
£ Sterling	+168	(168)
$ US	+32	(32)
Euro	+1	(1)
Other	+1	(1)

12. Securitisation

As at 31st December 2008, neither BNYH nor any of its subsidiaries had any risk weighted exposure calculated under BIPRU 9. During the year ended 31st December 2008, neither BNYH nor any of its subsidiaries was active as originator or sponsor of any traditional or synthetic securitisation including securitised revolving exposures. As a result, at year end there were no impaired or past due assets previously securitised or associated gains or losses recognised during the year. BNYH and its subsidiaries did not have any investments in third party securitisations on its balance sheet at year end.

13. Credit Risk Mitigation

BNYMI's netting policy is designed to reduce large credit exposures to counterparties. Netting refers to the measurement of credit risk arising from on or off balance sheet market-related transactions with a single counterparty on a netted basis. Market-related transactions include foreign exchange contracts. The standard custody agreement in use by BNYMI gives a right of set off for cash which is applied when calculating capital under Pillar 1. At 31st December 2008, the company did not have any third party off balance sheet exposure.

The company does not typically hold collateral to mitigate credit risk exposure in respect of banks. For clients, the standard custody agreement also gives a lien over custody assets including equities, bonds, gilts but this is not applied to reduce capital under Pillar 1.

As at 31st December 2008, BNYMI did not apply any financial collateral, third party guarantees, credit derivatives or other collateral as credit risk mitigation within the Pillar 1 calculation.

14. Insurance for the purpose of mitigating Operational Risk

This disclosure is not relevant since the group does not use the *advanced measurement approach* for the calculation of an operational risk capital requirement.