



BNY Holdings (UK) Limited

Pillar 3 Disclosures for the year ended 31st December 2010

Published 31st March 2011

About Pillar 3 Disclosure

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.

Policy and approach

Pillar 3 disclosures are required for a consolidated group and for those parts of the group covered by the Basel II framework. Pending implementation of the Basel II framework by The Bank of New York Mellon Corporation, there is currently no comparable disclosure provided on a consolidated basis by the firm's parent undertaking. As such, this disclosure has been prepared for BNY Holdings (UK) Limited and its principal UK regulated entity BNY Mellon International Limited.

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.

Pillar 3 disclosures are published annually as at the company Accounting Reference Date, 31st December and publication thereafter takes 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.

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

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

This policy is 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 2010

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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. The company first prepared Pillar 3 disclosures for year end 31st December 2008.

These disclosures were approved for publication by the firm Board of Directors in March 2011.

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).

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 the company'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.

Firms are required to disclose all their material risks as part of the Pillar 3 framework. Some of these requirements have already been satisfied within the Group's Annual Report and Accounts. The Annual Report and Accounts include a range of Group risk factors and provides in-depth analysis on the specific risks to which the Group is exposed.

These Pillar 3 disclosures provide additional information over and above the Group's Annual Report and Accounts. Specifically, Pillar 3 provides additional information on the minimum capital requirements under Pillar 1, credit risk and market risk exposures. Liquidity risk, which does not form part of the minimum capital requirements, is

discussed herein and in the Group's Annual Report and Accounts.

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.

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 primarily 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 (UK) Limited and, the following Irish subsidiaries, BNY Securities (Ireland) Limited, BNY Trust Company (Ireland) Limited, BNY Fund Services (Ireland) Limited and Renvy Limited.

Principal activities

BNYH group

Through its operating subsidiaries, the 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.

BNYMI

The principal activities of BNYMI and its subsidiaries (collectively the group) are the provision of custody and investment administration services. The custody and investment administration services are provided through offices located in the United Kingdom and through a branch in Luxembourg, while treasury dealing activities are conducted at the Group's City of London offices. The principal subsidiary undertaking of the Company, BNY Mellon Trust & Depositary (UK) Limited ("BNYMT&D"), provides trustee services principally in the United Kingdom to both unauthorised and authorised unit trusts. BNYMT&D also accepts engagements as a depository to open ended investment companies. The Group has also invested in an associate whose principal activities are similar to the Group. The

Group will continue to provide these services for the foreseeable future.

The Company is authorised and regulated by the Financial Services Authority ("FSA") pursuant to the Financial Services & Markets Act 2000. All of the Company's activities during the year are regulated and conducted within the scope of permissions granted to the Company by the FSA.

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

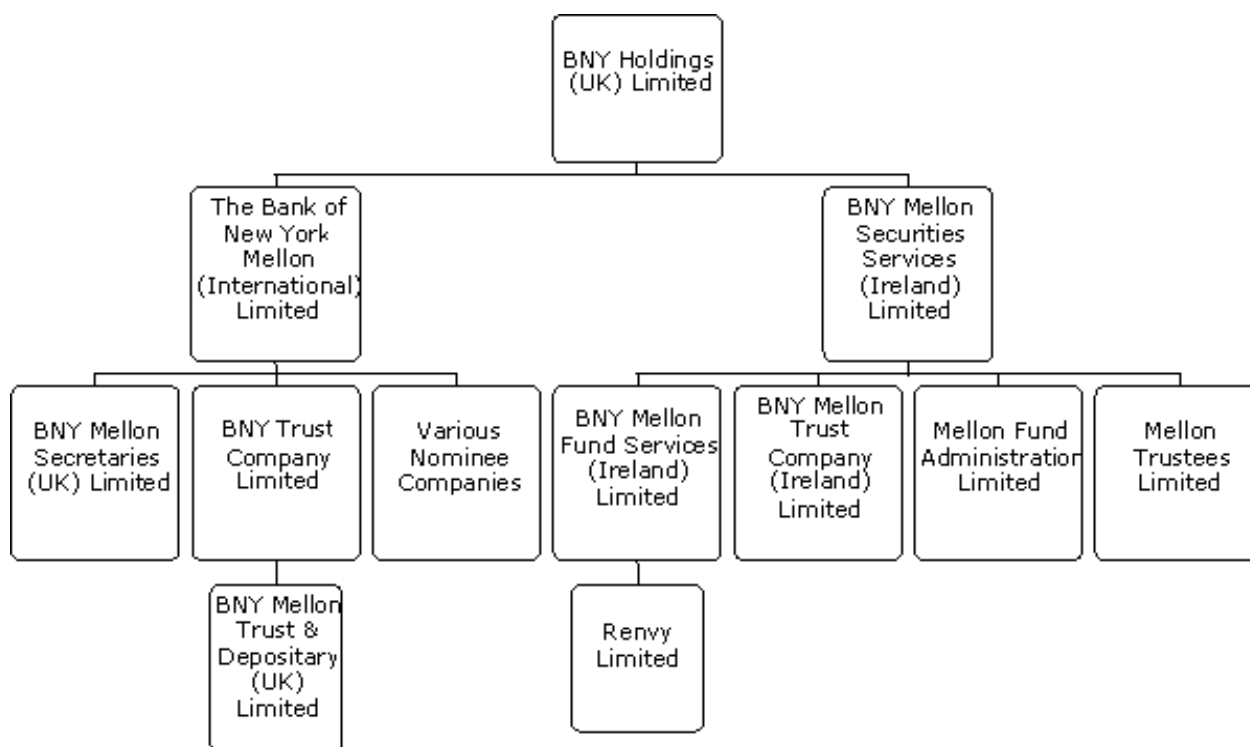
There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities when due between the parent undertaking and its subsidiaries

There were no instances during 2010 where Capital resources were less than the required minimum in any subsidiary undertakings not included in the consolidation (2009: nil).

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

2.1 Group structure

In overview, the BNY Holdings (UK) Limited group structure is as follows:



An overview of how the firm fits into the overall BNYMC group organisational structure can be found in Section 16.

Regulatory treatment

In outline:

- **BNY Holdings (UK) Limited** as the parent of a UK bank is subject to consolidated supervision by the FSA.
- **The Bank of New York Mellon (International) Limited** is a UK bank and reports on a solo-consolidated basis which includes its Luxembourg branch.

Other group firms

- BNY Trust Company Limited is a non-BIPRU firm - capital adequacy is determined by IPRU(INV) Chapter 5.
- BNY Mellon Trust & Depository (UK) Limited is a non-BIPRU firm - capital adequacy is determined by IPRU(INV) Chapter 5 for firms subject to the exemption in 5.2.3(2)(R).
- The Irish companies are subject to local regulatory capital requirements.
- The remaining entities are not subject to capital requirements as individual firms.

3. Risk Management Objectives & Policies

3.1 Risk Management Framework

In 2010, following a region-wide review of the EMEA risk management framework, an integrated *Enterprise Risk Management Framework* was introduced that is consistent with the developing regional regulatory environment.

The main focus of the ERM framework is consistency of Management Information reporting, development of Risk Appetite methodology, and strengthening of capital adequacy processes and ICAAP standards. As a result, a streamlined risk management structure was introduced with three distinct components: Risk Oversight, Risk management hierarchy, and Risk and capital reporting.

The firm complies with the new ERM framework.

3.1.1 Risk Oversight

Standards for Policies and procedures that are used to govern and manage the business are common to all BNY Mellon entities. These are adapted by firms to ensure that an appropriate level of risk management is directed at each element of the business.

The Board of Directors has both governance and decision making responsibility and for ensuring that such arrangements and independent oversight activities are adequate for the effective management of risks to the business.

BNYH

BNYH's risk committee is called the BNY Holdings (UK) Limited (BNYH) Risk Management Committee (the Committee). Its key purpose is to provide oversight of the risk management process for the underlying subsidiaries and businesses of the BNYH group and to ensure that risks are identified, monitored and reported.

The Committee is responsible for ensuring that risk and compliance activities undertaken by BNYH and its underlying subsidiaries and businesses are executed in accordance with internal policies and all relevant regulations. The management and Board of directors of each underlying subsidiary are responsible for the management and the oversight of risks together with the quality and effectiveness of internal controls.

The Committee acts on behalf of all underlying subsidiaries and businesses of the group as regards risk and compliance oversight, and derives its authority and mandate from both the BNYH Board of directors and the EMEA Risk and

Compliance Committee. The Committee reports into both BNYH Board of Directors and the EMEA Risk and Compliance Committee where entity and business matters requiring escalation are referred and agreed if necessary for escalation to the Senior Risk Management committee.

BNYMI

The BNYMI Board meets formally on a quarterly basis and receives reports from Risk Management, Compliance, Finance and Audit to evaluate the effectiveness of the existing control environment and, to ensure that any issues are resolved appropriately, effectively and in a timely manner. In the opinion of the Board such arrangements and monitoring activities are adequate for the effective operation of the businesses within the U.K.

3.1.2 Risk Appetite

The BNY Mellon Group Board of Directors define risk appetite as 'the level and type of risk a firm is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders.'

This message was re-enforced in 2010 by the Group Chairman and CEO with the issuance of the following statement:

"Given the critical role that BNY Mellon plays in supporting our clients and providing infrastructure for the global capital markets, our financial stability throughout market cycles is essential. Clients and market participants need to be able to have confidence that we will remain strong and continue to deliver uninterrupted service, globally. Consistent with that imperative, we focus on maintaining a "fortress" balance sheet. Consequently, we assume less risk than most financial service companies. Our primary risk is operational, consistent with our business model as a leading provider of asset management and Securities services."

All BNY subsidiaries have a responsibility through their respective boards to articulate and communicate a clear set of metrics that define its risk appetite. Each firm produces a risk appetite statement and supporting tolerance metrics that are appropriate for the business. All risk appetite and tolerance limits are monitored, measured and used to manage risk within the business.

BNYH & BNYMI

Consistent with company standards, the risk appetite of BNYH and BNYMI is a definition of the types and quantum of risks to which the group is exposed in executing its business strategy.

In setting its' risk appetite, BNYH & BNYMI consider the risk capacity, financial position, the strength of core earnings and the resilience of the firms reputation and brand. Risk appetite is expressed both qualitatively (describing which risks are taken and why), and quantitatively. In defining risk appetite, firm senior management attach specific qualitative and quantitative measures and metrics to individual risks to ensure that:

- business activity is controlled so it continues to be aligned to the risk appetite framework
- key assumptions underpinning risk appetite are monitored and, as necessary, adjusted through subsequent business planning cycles; and
- business decisions necessary to mitigate risk are identified and are acted upon promptly.

On a regular basis, each firm's range of risk exposures is measured by the BOD against the defined risk appetite.

3.2 Risk Management Objectives & policies

BNYH, through its operating entities proactively identifies, assesses and manages a range of risks.

BNYMI operates primarily in the Asset Servicing sector of The Bank of New York Mellon Corporation (BNYMC). Independent risk resources for the business sector have been closely involved in the risk assessment processes and in the production of the firm Internal Capital Adequacy Assessment Process (ICAAP) document which is approved annually by the Board of Directors.

The following section outlines the principal risks to which BNYMI (as the principal operating subsidiary) is exposed.

3.2.1 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.

BNYMI credit risk exposure is relatively low given a deposit focused ie liability driven balance sheet.

3.2.2 Market Risk

Market risk is the risk to a firm's financial condition arising from adverse changes in income or the value of assets and liabilities due to movements in markets, interest rates, exchange rates, equity prices and indexes.

BNYMI market risk mostly reflects exposure to foreign exchange mismatches. Daily controls are in place to evaluate exposure and metrics are provided to Senior Management for comparison against risk tolerance.

3.2.3 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. It also includes risk of regulatory action or reputational damage to the firm.

Each Line of Business is responsible and accountable for Operational Risks and operates in accordance with the BNYMC's corporate policies as agreed by the board. In addition, an independent Operational Risk Management function exists to both develop and ensure implementation of policies. The Operational Risk function is responsible for overseeing the appropriate mitigation of significant operational risks.

Key aspects of the Operational Risk Framework include policies covering the application of Risk Control Self Assessments (RCSAs); Key Risk Indicators (KRIs); Operational Risk Event reporting and analysis (losses; near misses and fortuitous gains) together with the risk assessments of major change and new client initiatives.

3.2.4 Liquidity Risk

BNYM defines liquidity as its access to funding and ability to convert assets to cash quickly and efficiently, especially during periods of market stress. Liquidity risk is the risk that the firm cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flow and collateral needs without adversely affecting daily operations or financial conditions.

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 liquidity 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 FSA liquidity adequacy rule and regularly reporting this information to the governing body.

As regards 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 centres, such as New York, London and

Brussels, and is driven by client cash needs and transactions.

BNYH and BNYMI

BNYH is a holding company and does not carry out any trading activities. The main operating entity, BNYMI is self-sufficient within the group liquidity framework and complies with local liquidity regulations. The firm 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.

No wholesale funding is currently required. Placements are mostly overnight and are provided to credit assessed, high quality counterparties only. Limits and tolerances are used to monitor daily counterparty exposures.

The firm has a robust liquidity risk management ethos evidenced by senior management governance and oversight and documented procedures around measurement and monitoring of risk.

Regulatory Changes

The FSA issued its policy document on 'strengthening liquidity standards' ((PS 09/16 and BIPRU 12) on 5th October 2009 detailing the requirements for liquidity governance to be in place by 1st December 2009, and the quantitative requirements for liquidity buffers, which are in place from 2010, although with an extended transition period of several years to meet the expected standards. This is the most comprehensive liquidity regime imposed by any regulator globally, requiring increased quantitative reporting from October 2010 and additional evidential reporting to demonstrate adherence to new qualitative requirements. In addition, the Basel Committee on Banking Supervision released a consultative document 'International framework for liquidity risk measurement, standards and monitoring' in December 2009.

FSA BIPRU 12

In summary, FSA BIPRU 12 Systems and Control requirements oblige the firm's 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 informs the governing body's decisions on whether the firm's liquidity risk appetite should be amended and forms the basis for a liquid assets buffer and a Contingency Funding Plan.

BNYMI complies with the new FSA Liquidity Standards on a solo consolidated firm level.

In meeting these new requirements, all firms comply with EMEA's *Liquidity Risk Management Framework & Operating Model* which sets out the principles, elements, components and standards for the liquidity risk management. In summary, BNYMI has:

- A regime of BOD and EMEA ALCO oversight and governance (including defining risk strategy, setting risk appetite and limits) and tracking performance. The firm's liquidity risk appetite and tolerance (limits) are consistent with and proportionate to its' limited-scope business model. Senior management also oversee risk driver identification, pricing of liquidity across business lines and products, management of intra-day liquidity risk and funding diversification and market access.
- A firm Liquidity Policy & Contingency Funding Plan that conforms with Group requirements (considering risk appetite and limits).
- Liquidity Stress testing covering *firm bespoke* and *FSA prescribed* idiosyncratic, market wide and combination (worst case) events. Stress scenarios are established by Senior Treasury & Risk officers and are approved by the BOD. Behavioural assumptions are approved by the BOD and events are modelled across short term (up to two weeks) and protracted (from two weeks to 3 months) time horizons for all applicable Liquidity risk drivers using a mismatch cash flow model. The need for a Liquid Assets Buffer is considered based on the outcome of the stress test cycle. The firm's Contingency Funding Plan is reviewed regularly. Liquidity Stress test scenarios, analysis and results and recommendations are reviewed and approved by the firm BOD.
- In the context of BIPRU 12, BNYMI is an *ILAS* firm. As such, an *Individual Liquidity Adequacy Assessment* was prepared for the first time in 2010. This report was approved by the firm BOD in September 2010.
- A regime of regular reporting to BOD and EMEA ALCO about liquidity ratios and metrics.
- Reporting to regulators. The firm commenced reporting under the new FSA liquidity regime on 1st October 2010.

Taken altogether, it is considered that BNYMI is self sufficient for liquidity and has an adequate liquid assets buffer. Controls over firm liquidity risk are robust and effective.

Future developments

In December 2010, the Basel Committee as part of the proposed Basel III liquidity framework, introduced two new key liquidity metrics: a **liquidity coverage ratio** aimed at ensuring banks have sufficient unencumbered high quality assets to meet cash outflows in an acute short-term stress and a **Net Stable Funding Ratio** to promote longer-term structural funding of the Bank's balance sheet. These ratios will be phased in from 1 January 2015 and 1 January 2018 respectively following an observation period which commences on 1 January 2012.

3.2.5 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 2010, 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 (2009: nil).

3.2.6 Interest rate Risk in the banking book (IRRBB)

Interest rate risk is the risk associated with changes in interest rates that affect net interest income (NII) from interest-earning assets and interest-paying liabilities. For regulatory purposes, interest rate risk is monitored in the trading portfolio and banking book separately. The firm is exposed to interest rate risk in the banking book from on-balance assets and liabilities (there are currently no off-balance sheet exposures) and from movements in domestic and foreign interest rates that affect its business activities.

3.2.7 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).

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.

3.2.8 Business Risk & Client Concentration risk

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.

Concentration risk is the risk of loss related to credit activities and any other significant interrelated asset or liability exposure which, in case of distress in a market /sector /country or area of activity has the potential to threaten the soundness of the institution.

3.3 Risk Reporting Systems

All of BNYH group business activities are included in Basel II capital reporting, with the group utilising standardised (rather than advanced or advanced internal model) approaches to Pillar 1 capital determination.

BNYH utilizes the BNYMC group risk reporting systems in accordance with group risk policy and therefore the measurement and monitoring of the major risks encountered by the company are to the most part delivered by central systems or, where for sound business reasons this is not the case, through structures and processes that support comprehensive oversight by senior management.

The purpose of the company's risk measurement and reporting systems is to ensure that all risks and exposures are comprehensively captured, with all of the attributes necessary to support robust decision making by senior management and risk mitigation within approved risk appetite levels.

Risk measurement and reporting systems are subject to a robust governance framework, to ensure that their design is fit for purpose and that they are functioning properly and that controls are effective. There is regular reporting on risk to business line management, to specialist functions and to the senior management of the company.

4. Capital Resources

During the year ended 31st December 2010, 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 2010. The group did not have any Innovative Tier 1 capital resources or Tier 3 capital as at 31st December 2010 (2009: nil).

Information about Capital terms and conditions is set out in the Company's Annual Report and Accounts 2010.

4.1 Regulatory Capital for BNYH and BNYMI

Capital resources (unaudited) As at 31 st December	BNYH group	BNYMI	BNYH group	BNYMI
	2010		2009	
	£000s	£000s	£000s	£000s
Tier 1 capital				
Called up share capital	264,902	202,484	264,902	202,484
Retained earnings and other reserves	-27,604	-30,063	-72,914	-70,452
Unaudited net profits (1)				
Total Tier 1 capital	237,298	172,421	191,988	132,032
Deductions from Tier 1 capital				
Intangible assets (2)	-31,392	-630	-64,306	-770
Total Tier 1 capital after deductions (T1)	205,906	171,791	127,682	131,262
Tier 2 capital				
Lower Tier 2 capital				
Dated subordinated debt	32,000	0	40,000	0
Total Tier 2 capital	32,000	0	40,000	0
Total Capital Resources (TCR)	237,906	171,791	167,682	131,262
Capital ratios				
Tier 1 ratio (T1/RWA)	21.9%	23.5%	14.9%	19.0%
Total capital ratio (TCR/RWA)	25.3%	23.5%	19.6%	19.0%

1. Unaudited Profits are not reported to the FSA as part of Tier one capital. As of the date of this report, 2010 profits have not been audited and are therefore excluded from capital.

2. Intangible assets comprise mostly goodwill.

5. Capital Requirements and Adequacy

5.1 Overview

The Group's capital management approach is driven by a desire to maintain a strong capital base to support the development of the business and, to meet regulatory capital requirements at all times. 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 firm complies with Individual Capital Guidance (ILG) as set by FSA.

5.2 Capital requirements and adequacy

The following table summarises the BNYH group and BNYMI significant subsidiary company's capital requirements by exposure class and capital adequacy surplus.

5.2.1 Capital Requirements by exposure class and capital adequacy surplus

Exposure class (unaudited) As at 31 st December	BNYH group	BNYMI	BNYH group	BNYMI
	2010		2009	
	£000s	£000s	£000s	£000s
Credit risk – standardised approach				
Institutions	0	0	0	0
Corporates	1,017	1,017	1,862	1,878
Short term claims on Institutions & Corporates	25,619	23,938	21,202	20,075
Collective Investment Undertakings	2,839	2,839	3,586	3,586
Other Items (1)	8,608	5,333	10,423	7,800
Total Credit risk capital requirements	38,083	33,127	37,073	33,339
Operational risk – standardised approach	33,056	21,190	29,140	19,759
Market risk				
Foreign currency Position Risk Requirement (2)	4,192	4,192	2,144	2,144
Total Market risk capital requirements	4,192	4,192	2,144	2,144
Total Pillar 1 Capital Requirements (TP1)	75,331	58,509	68,357	55,242
Capital surplus (TCR-TP1)	162,575	113,282	99,325	76,020
Solvency ratio				
Total Capital Resources (TCR) / Total Pillar 1 Capital Requirements (TP1)	315.8%	293.6%	245.3%	237.6%

1. Other items capital requirement is principally with respect to miscellaneous Trade 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.

5.3 Minimum capital requirements & Risk Weighted Assets

Disclosure about Risk Weighted Assets (RWAs) is not a mandatory requirement of Pillar 3. However, RWAs are included in the following table as they remain an important part of the internal management information about minimum capital requirements used by the group and BNYMI.

The following table details the group and BNYMI underlying RWAs by risk type consistent with Minimum capital requirements reported above.

Risk Weighted Assets by risk type

Risk weighted assets	BNYH group	BNYMI	BNYH group	BNYMI
	2010		2009	
	£000s	£000s	£000s	£000s
Credit risk	476,038	414,088	463,413	416,738
Operational risk	413,200	264,875	364,250	246,988
Market risk	52,400	52,400	26,800	26,800
Total RWAs	941,638	731,363	854,463	690,526

Minimum Total Pillar 1 capital requirements (TP1) are defined as 8% of the RWAs.

5.4 Retail and Equity exposures

The BNYH group had no retail or material equity exposures as at 31st December 2010 (2009: nil).

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 2010, 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 (2009: nil).

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. This method for calculating credit risk capital requirements uses ECAI ratings and supervisory risk weights.

In outline, exposures are allocated to specific standardised exposure classes as determined by FSA BIPRU 3 and it is these classes that determine the risk weight used. For exposures to corporates, sovereigns and institutions, BNYMI uses the external credit assessments of recognised credit rating agencies (i.e. Moody's, Standard & Poor's and Fitch, where appropriate). See section 7.5 for details.

Exposure

The definition of exposure used in this report is consistent with that recommended by the UK 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 (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.

7.3 Credit Exposures

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)

Standardised exposure classes At 31 st December	BNYMI	BNYMI	BNYMI	BNYMI
	EAD pre CRM	Average EAD pre CRM	EAD pre CRM	Average EAD pre CRM
	2010		2009	
	£000s	£000s	£000s	£000s
Central governments & central banks	21,985	6,097	3,988	11,363
Regional governments & Local authorities	0	0	0	16
Institutions	0	0	0	0
Corporates	1,138	27,983	3,210	20,838
Short term claims on Institutions & Corporates	1,491,442	1,278,460	1,254,709	1,535,255
Collective Investment Undertakings	47,433	48,423	65,845	27,864
Other items	66,662	76,313	97,492	112,980
Total	1,628,660	1,437,276	1,425,244	1,708,316

1. Standardised exposure classes are defined by FSA in BIPRU 3.
2. Other items principally comprises Trade and other debtors, interest and accounts receivable and prepayments.
3. Average exposure is computed on a 13 month average, December 2009 to December 2010.

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

As at 31st December 2010

Standardised exposure classes	UK	Europe, Middle East & Africa	North America	Asia Pacific	BNYMI Total
	£000s	£000s	£000s	£000s	£000s
Central governments & central banks		21,985			21,985
Institutions					
Corporates	1,119	19			1,138
Short term claims on Institutions & Corporates	301,733	854,981	283,937	50,791	1,491,442
Collective Investment Undertakings	35,489			11,944	47,433
Other items	66,662				66,662
Total	405,003	876,985	283,937	62,735	1,628,660

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

As at 31st December 2009

Standardised exposure classes	UK	Europe, Middle East & Africa	North America	Asia Pacific	BNYMI Total
	£000s	£000s	£000s	£000s	£000s
Central governments & central banks		3,988			3,988
Institutions					
Corporates	2,227	983			3,210
Short term claims on Institutions & Corporates	1,079,405	165,139		10,165	1,254,709
Collective Investment Undertakings	44,830	10,580		10,435	65,845
Other items	97,492				97,492
Total	1,223,954	180,690	0	20,600	1,425,244

1. 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 2010

Industry sector	Central gov'ts & central banks	Institutions	Corporates	Short term claims on Institutions & Corporates	Collective Investment Undertakings	Other items	BNYMI Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Central & local government	21,985						21,985
Insurance companies & Pension funds			974				974
Banks & Other financial			52	1,491,442	47,433		1,538,927
Private sector education, health			105				105
Other business activities							
Personal & Community service activities			7				7
Other individual Loans & Advances						66,662	66,662
Total	21,985	0	1,138	1,491,442	47,433	66,662	1,628,660

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

As at 31st December 2009

Industry sector	Central gov'ts & central banks	Institutions	Corporates	Short term claims on Institutions & Corporates	Collective Investment Undertakings	Other items	BNYMI Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Central & local government	3,988						3,988
Insurance companies & Pension funds			2,136				2,136
Banks & Other financial			1,056	1,254,709	65,845		1,321,610
Other business activities			9			97,492	97,501
Other individual Loans & Advances			9				9
Total	3,988	0	3,210	1,254,709	65,845	97,492	1,425,244

1. 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 2010

Standardised exposure classes	On demand	Up to 1 year ex on demand	BNYMI Total
	£000s	£000s	£000s
Central governments & central banks		21,985	21,985
Institutions			
Corporates	1,138		1,138
Short term claims on Institutions & Corporates	216,463	1,274,979	1,491,442
Collective Investment Undertakings	47,433		47,433
Other items		66,662	66,662
Total	265,034	1,363,626	1,628,660

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

As at 31st December 2009

Standardised exposure classes	On demand	Up to 1 year ex on demand	BNYMI Total
	£000s	£000s	£000s
Central governments & central banks		3,988	3,988
Institutions			
Corporates	3,210		3,210
Short term claims on Institutions & Corporates	122,563	1,132,146	1,254,709
Collective Investment Undertakings	65,845		65,845
Other items		97,492	97,492
Total	191,618	1,233,626	1,425,244

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

7.4 Impaired and Past Due Assets and Provisions

Impairment of loans and advances

For BNYMI, losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans. Impairment losses are recorded as charges to the profit and loss account. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

As at 31st December 2010, BNYMI had no impaired assets for which a provision had been raised (2009: Nil). 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 2010 (2009: nil).

Provisions for liabilities and charges

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation.

7.5 Credit Risk Standardised Approach

Credit exposure is computed under the Standardised Approach pursuant to fixed risk weights. The Standardised approach for measuring credit risk is the least sophisticated of the capital calculation methods. Risk weights applied under the Standardised method are given by the FSA and are based on the asset class to which the exposure is assigned.

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 for a counterparty are determined as soon as a relationship is established and these ratings are tracked and kept up to date. Ratings are subject to validation or amendment by a Credit Officer.

Standardised exposure by Credit Quality Step

The following disclosure table (#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

Credit Quality Steps	Risk weight	BNYMI	BNYMI	BNYMI	BNYMI
		EAD pre CRM	EAD post CRM	EAD pre CRM	EAD post CRM
		2010		2009	
	%	£000s	£000s	£000s	£000s
CQS 1	20%	1,206,181	1,206,181	993,493	993,493
CQS 2	20%	285,261	285,261	261,216	261,216
CQS 3	20%	0	0	0	0
Total		1,491,442	1,491,442	1,254,709	1,254,709

ECAI grades

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. 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 2010, the company did not have any third party off balance sheet exposure (2009: nil).

The company does not typically hold collateral to mitigate credit risk exposure in respect of banks. For clients, the standard custody agreement 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 2010, BNYMI did not apply any financial collateral, third party guarantees, credit derivatives or other collateral as credit risk mitigation within the Pillar 1 calculation (2009: nil).

9. 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 (2009: nil).

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.

10. 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; and reputation damage.

11. Non-trading book exposures in equities

As at 31st December 2010, BNYMI had equity shares amounting to £56,000 (2009: £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 2010 (2009 nil).

12. Interest Rate Risk in the non-trading book

Interest rate risk in the banking book (IRRBB) represents non-traded product exposures of the company whose values vary with the level or volatility of interest rates. These exposures include, but are not limited to loans, debt securities, deposits, certificates of deposits and other debt securities issued, loan capital and derivatives.

Interest rate risk in the banking book arises from the following factors:

- *yield curve risk*: as a result of non-parallel changes in the yield curve
- *repricing risk*: as a result of differences in the repricing terms of the company's assets and liabilities
- *basis risk*: as a result of, for example one month LIBOR used to fund base rate assets
- *optionality*: where a customer has an option to exit a deal early.

Senior management is responsible for setting and monitoring the adequacy and effectiveness of the IRRBB management process, using a framework that identifies, measures, monitors and controls the underlying risk. Senior management approves the company's IRRBB appetite.

From an economic perspective, it is the company's policy to minimise the sensitivity of net accrual earnings to changes in interest rates and, where interest rate risk is retained, to ensure that appropriate resources, measures and limits are applied.

BNYMI incurs interest rate risk in its non-trading book 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 mismatch 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. In overview, 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.

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 2010 given a 200 basis point shift in interest rates up and down, by currency and reflects a substantially matched book in terms of currency, amounts and tenors. As at 31st December, the book was mostly funded overnight with some matched term funding.

Impact on earnings at 31st December of a 200BP Increase / (decrease) in the yield curve

Currency	Impact 200 BP increase	Impact 200 BP decrease	Impact 200 BP increase	Impact 200 BP decrease
	2010		2009	
	£000s	£000s	£000s	£000s
£ Sterling	+7	(7)	+99	(99)
\$ US	(6)	+6	+12	(12)
Euro	Nil	Nil	+1	(1)
Other	Nil	Nil	Nil	Nil

13. Securitisation

A Securitisation transaction or scheme is one where the credit risk associated with an exposure, or pool of exposures, is tranching and where payments to investors in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures. A traditional securitisation involves the transfer of the exposures being securitised to an SPE which issues securities. In a synthetic securitisation, the tranching is achieved by the use of credit derivatives and the exposures are not removed from the balance sheet of the originator.

As at 31st December 2010, neither BNYH nor any of its subsidiaries had any risk weighted exposure calculated under BIPRU 9 (2009: nil). During the year ended 31st December 2010, neither BNYH nor any of its subsidiaries was active as originator or sponsor of any traditional or synthetic securitisation including securitised revolving exposures (2009: nil). 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 (2009: nil).

14. Remuneration

The FSA issued Policy Statement PS10/21 '*Implementing CRD3 requirements on the disclosure of remuneration*' in December 2010. Remuneration disclosure requirements came into effect on 1st January 2011 in line with the deadline imposed by CRD3. The FSA has set a deadline of 31 December 2011 for firms to make their first disclosure under the new provisions. Amendment has been made to FSA BIPRU 11 to expand the disclosure requirements to include remuneration.

In this matter, the Firm BOD is considering options for making disclosure and is taking steps to meet the FSA timetable.

15. 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.

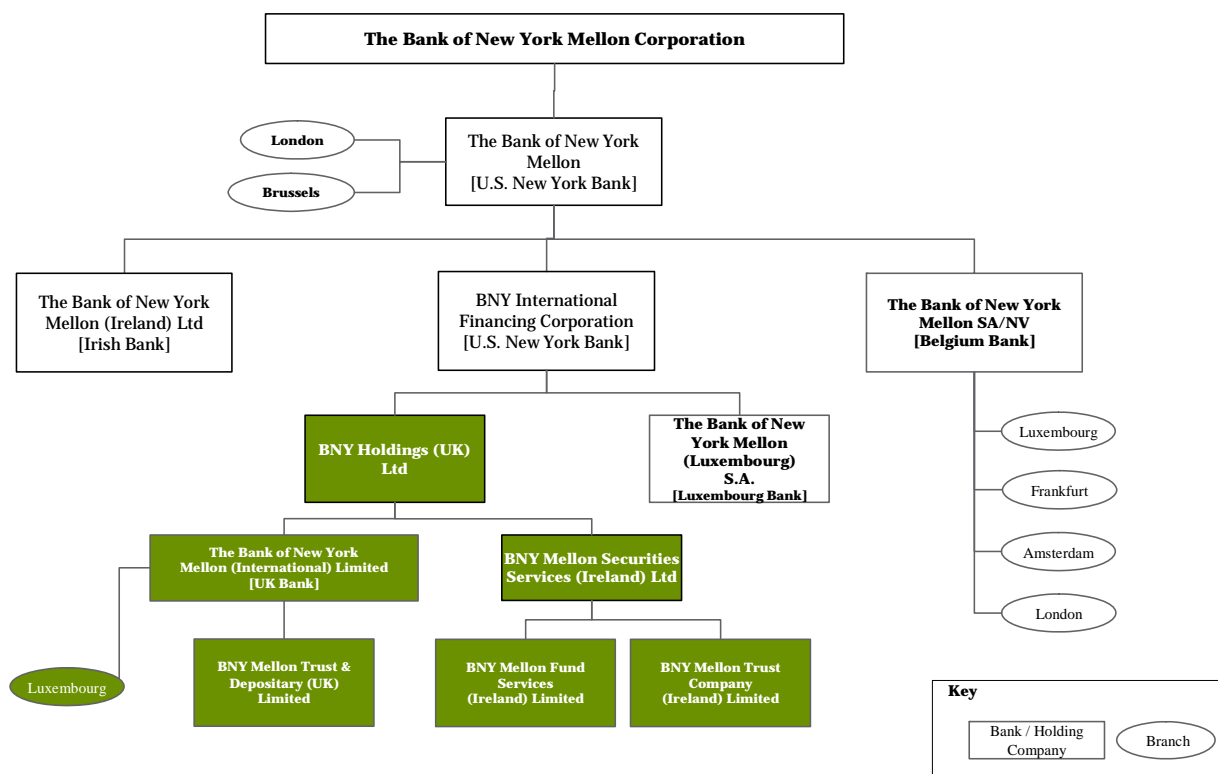
16. Glossary of terms

The following terms are used in this paper

- **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 FSA's rules, as set out in Prudential Sourcebook for Banks, Building Societies and Investment Firms.
- **CCF:** Credit Conversion Factor
- **CCR:** Counterparty Credit Risk
- **Core equity tier 1 capital:** Tier 1 capital less innovative tier 1 securities and preference shares.
- **CRD:** Capital Requirements Directive
- **Credit quality step:** A step in the FSA credit quality assessment scale which is based on the credit ratings of External Credit Assessment Institutions ('ECAIs'). It is used to assign risk weights under the standardised approach.
- **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.
- **Derivatives:** A derivative is a financial instrument that derives its value from one or more underlying assets, for example bonds or currencies.
- **ECAI:** External Credit Assessment Institution, such as Moody's Investors Service, Standard & Poor's Ratings Group or Fitch Group.
- **Equity risk:** The risk arising from positions, either long or short, in equities or equity-based instruments, which create exposure to a change in the market price of the equities or equity instruments
- **Expected loss (EL):** A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).
- **Exposure:** A claim, contingent claim or position which carries a risk of financial loss.
- **Exposure at default (EAD):** The amount expected to be outstanding, after any credit risk mitigation, if and when a counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures.
- **Fair value:** Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
- **FSA:** The Financial Services Authority of the United Kingdom.
- **IFRS:** International Financial Reporting Standards
- **Institutions:** Under the Standardised approach, Institutions are classified as credit institutions or investment firms.
- **ICAAP:** **Internal Capital Adequacy Assessment Process** 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.
- **Residual maturity:** The period outstanding from the reporting date to the maturity or end date of an exposure.
- **Risk appetite:** A definition of the types and quantum of risks to which the firm wishes to be exposed in executing its strategy.
- **Securitisation:** A transaction or scheme whereby the credit risk associated with an exposure, or pool of exposures, is tranching and where payments to investors in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures. A traditional securitisation involves the transfer of the exposures being securitised to an SPE which issues securities. In a synthetic securitisation, the tranching is achieved by the use of credit derivatives and the exposures are not removed from the balance sheet of the originator.
- **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 FSA's Handbook).
- **Tier 2 capital:** Has the meaning given to this term in the General Prudential Sourcebook (as set out in the FSA's Handbook).
- **Value at risk (VAR):** An estimate of potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

17. BNYMC Group organisational structure

The following simplified Organisation chart shows the relative position of BNY Holdings and its subsidiaries in the Group structure.



18. Contacts

For further information about any matters contained in this report please contact:

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