



BNY MELLON  
ASSET SERVICING



# Pillar 3 disclosures 2008

*BNY Mellon GSS Acquisition Co. (Netherlands) B.V.*



## About Pillar 3 Disclosures

### **A. Alignment of disclosures within Netherlands regulated entities**

*De Nederlandsche Bank N.V. (DNB) 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 these requirements. However, whilst disclosures are intended to provide transparent information on a common basis, different assumptions may apply to other banking groups especially outside the Netherlands 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 DNB 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](http://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.*

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## Introduction

This document serves as the Basel II Pillar 3 disclosures of BNY Mellon GSS Acquisition Co. (Netherlands) B.V. (hereinafter the Company) in accordance with the Dutch Financial Supervision Act, article 3:74a.

The Company implemented the Basel II standardised approach for measuring Regulatory Capital in January 2008. This Pillar 3 disclosure is a compulsory and integral part of our Basel II implementation.

The Company and its subsidiaries provide a broad range of financial services including global custody and securities lending.

### **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 De Nederlandsche Bank N.V. to undertake a supervisory review to assess the robustness of the Company's internal assessment.
- Pillar 3 compliments 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.

### **Scope and Application of Directive Requirements**

The Company was incorporated on 8 November 2007 in the Netherlands and is 100% owned by The Bank of New York Mellon. The Company is the parent company of BNY Mellon Asset Servicing B.V. (referred to as BNYMAS B.V.) and its subsidiary BNY Mellon Global Custody B.V. (referred to as BNYMGC).

The Pillar 3 disclosures of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as BNYMAS) on a consolidated basis.

- The following text is an exact copy of the section on Risk Management in the Annual Accounts 2008, covering the Pillar 3 disclosure requirements –

## Risk management

### (a) Introduction

#### (i) Risk management description

This section contains a description of risk management at BNYMAS. It covers risk related disclosure requirements of IFRS as well as Basel II Pillar 3 on a consolidated level.

#### (ii) Objective

The objective of BNYMAS is to maintain a strong capital base to maintain market confidence to sustain the future development of the business and to meet regulatory capital requirements at all times. Although maximisation of the return on risk adjusted capital is the principal basis used in determining how capital is allocated to particular activities, it is not the sole basis used for decision making. The amount allocated is based upon the regulatory capital required, synergies with other activities, the availability of management and other resources, and the fit of the activity with the long term strategic objectives.

### (b) Risk management framework

#### (i) Responsibilities

The Management Board of BNYMAS B.V. (The Board) has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Management Committee (RMC), which is responsible for developing and monitoring of risk management policies. The committee consists of the Chief Executive Officer of BNYMAS B.V. (CEO), the Chief Operations Officer of BNYMAS B.V., the Chief Financial Officer of BNYMAS B.V., the Corporate Risk Manager and representative(s) of the shareholder Risk Management department. The RMC meets on a monthly basis to address all aspects of risk within the business.

Corporate Risk Management (CRM) has been established to ensure that all financial and non-financial risks are identified and managed within the parameters prescribed by the Board. CRM operates independently of the business and provides advice to the business on issues related to amongst others credit, liquidity, market and operational risk.

BNYMAS risk management is focused on identifying, assessing, measuring and controlling risk and acting proactively to manage it. The Board has established a sound governance structure around the risk management framework. The Board in conjunction with the RMC determines the overall risk appetite and risk profile at a strategic level, evaluates the risk related to new products and services and approves major changes to risk policies.

The Finance department is responsible for regulatory reporting and supports the RMC and the Managing Board with capital planning and is responsible for incorporating this into the budget and forecast cycle. The analysis with the available capital and required capital per risk category is included in the monthly management information reported to the Management Board.

The Compliance function is responsible for conducting compliance monitoring reviews and tracking identified deficiencies and ensure follow up. Compliance presents the results, including findings and recommendations and communicates these to the business line management. The detected deficiencies are also reported to the RMC and tracked by the compliance monitoring review schedule. Compliance provides the Managing Board and RMC with their annual compliance report. Compliance operates independently of the business and provides advice on all compliance related issues.

The Audit Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

**(ii) Risk policies**

CRM formulates policies to manage financial and non-financial risk at the corporate level and is responsible for ensuring that these policies remain up to date and appropriate for the business undertaken.

The risk management policies are modelled on the conservative policies of The Bank of New York Mellon. The risk management policies are established to identify and analyse the risks faced by BNYMAS B.V., to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

**(iii) Procedures for measuring and managing risks**

CRM monitors risk against approved limits where applicable, identifies risk and assists in actions that mitigate risk. In addition to having outsourced certain tasks of the risk measurement and risk monitoring process to the shareholder to leverage from their risk management expertise the CRM is responsible for:

- (i) Independently monitoring and reporting risks arising from day to day activities.
- (ii) Ensuring that any breaches to limits or policies are reported to the RMC for approval and sign off if necessary.
- (iii) Devising of risk limits and policies.
- (iv) Reviewing and opining on all submissions to the RMC for increased limits and or alterations to policy.
- (v) Providing oversight and support to the CEO and business management to ensure that risks are properly managed.
- (vi) Establishing overall policy and process framework for managing risk.
- (vii) Providing direction setting, oversight and guidance to the business.

**(b) Risk types**

**(i) Credit risk**

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. For risk management purposes credit risk exposure consists of the individual customer default risk and the related concentration risk related to sector and country risk.

Almost all customers are incorporated in OECD countries and can be classified as financial intermediary, insurance or pension fund. The credit risk consists of:

- (i) Cash accounts held with European Central Banks to fulfil the respective local minimum reserve requirements and corporate accounts with ABN AMRO.
- (ii) Loans and advances to banks consisting of the overnight placement of cash balances with the (former) shareholder(s).
- (iii) Loans and advances to customers where the risk arises from the settlement risk due to the failure of a customer to honour its obligations to deliver cash or securities for a transaction that BNYMAS B.V. has settled for the customer. The advances are managed through daily reporting and various escalation processes. Furthermore, the standard agreement with customers includes the pledge of customer cash and assets under custody as collateral against all loans and advances to customers.
- (iv) The off-balance sheet transactions where BNYMAS B.V. acts as agent in collateralised securities lending transactions. This may result in credit exposure in the event that the counterparty to a transaction is unable to fulfil its contractual obligations and BNYMAS B.V. has provided the lender with indemnification. The risk is managed by approval

procedures for accepting new banks and brokers, setting credit limits for banks and brokers, daily monitoring of credit exposure, the daily monitoring of collateral including mark-to-market valuation, the application of haircuts to the collateral and requiring additional collateral to be deposited when deemed necessary. For transactions where borrower indemnification has been provided, the risk occurs only if the borrower defaults and the value of the collateral held is not sufficient to restore the full value of the loaned securities to the lender, where the market risk related to the collateral is for the account of the lender. For transactions where collateral indemnification has been provided, any loss realised as a result of any deficiency (upon liquidation or otherwise) in the value of any collateral held in respect of any loan is for the account of BNYMAS B.V. When cash is received as collateral and reinvested in the market on behalf of the customer, additional market risk arises. The market risk is assumed by the customer who has, prior to any securities lending taking place on their behalf, agreed to cash reinvestment guidelines which form a part of their securities lending agreement, which also documents that all market risk on cash reinvestment is for the account of the customer.

The regulatory capital held by BNYMAS for credit risk is €70,801 thousand (2007: €109,489 thousand).

#### **(ii) Market risk**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not related to credit ratings) will affect the income of BNYMAS B.V. or the value of the financial instruments held.

The market risk applicable to BNYMAS B.V. is limited to the exposure in foreign currency (FX). BNYMAS B.V. is exposed to a currency risk through income and expenses in foreign currency and the investment in foreign operations. There is no FX exposure in the advances to banks and the maintenance of current accounts for customers as all deposits from customers and advances to customer are placed in the same currency with the parent banks.

Assets and liabilities in foreign currency are managed through the purchase or sale of the required currency. The policy within BNYMAS B.V. is to close all FX exposures Bi-weekly. The regulatory capital held by BNYMAS for market risk is €0 (2007: €734 thousand).

#### **(iii) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all activities.

The objective is to manage operational risk so as to balance the avoidance of financial losses and damage to reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and the implementation of controls to address operational risk is assigned to senior management within each area. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas.

- a) Requirements for the appropriate segregation of duties.
- b) Requirements for the reconciliation and monitoring of transactions.
- c) Compliance with regulatory and other legal requirements.
- d) The documentation of controls and procedures.
- e) Requirements of the periodic assessment of operational risk faced and the adequacy of controls and procedures to address the risk identified.

- f) Requirements for the reporting of operational losses and proposed remedial action.
- g) The development, maintenance and testing of contingency plans to support operations in the event of disaster.
- h) The training and professional development of all employees.
- i) The requirement to maintain ethical and business standards.
- j) Risk mitigation, including insurance where this is effective.

Significant business process change and new services are subject to a full risk assessment coordinated by the Risk Manager and subject to the approval of the relevant areas.

Senior management and the Board are provided with monthly operational reports that serve to highlight any operational issues that have or may lead to financial loss or a disruption to the normal course of business. An operational risk management function has been established within the Operations to monitor the operational risk on a daily basis and also ensure that appropriate controls are in place to mitigate operational risk.

Compliance with standards is supported by a program of periodic reviews undertaken by Internal Audit, Compliance and external auditors. The results of the reviews are discussed with the management of the area which they relate, with summaries submitted to the Audit Committee and the Board. The regulatory capital held by BNYMAS for operational risk is €32,483 thousand (2007: €26,380 thousand).

#### **(iv) Concentration risk**

Concentration risk, as part of the credit risk, includes (i) large (connected) individual exposures and (ii) significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors. Concentration risk is assessed for a counterparty, sector and country concentration for the credit risk in advances to banks, advances to customers and the exposures in the securities lending book.

##### Counterparty concentration

As at December 31, 2008, BNYMAS held more than 95 % of its advances to banks with The Bank of New York Mellon. As these placements are with a well-rated bank being the shareholder of BNYMAS this is not assessed as a risk. The securities lending book is limited to approximately 50 to 60 well rated broker / dealers, BNYMAS B.V. mitigates the risk by setting limits to broker/ dealers. Given the nature of the securities lending business (agency only) and the mitigations in place BNYMAS B.V. does not hold capital for concentration risk related to securities lending.

##### Sector concentration

Almost all counterparties of BNYMAS B.V. can be classified as financial intermediary, insurance or pension fund. Considering the nature of global custody services the aforementioned sectors are the markets for these services as a result BNYMAS does not hold capital for this sector concentration risk.

##### Country concentration

BNYMAS B.V. has counterparties and customers in numerous countries. As almost all counterparties and customers are incorporated in OECD countries, the country concentration risk for BNYMAS is limited.

BNYMAS does not hold regulatory capital for concentration risk (2007: €0).

#### **(v) Liquidity risk**

Liquidity risk is the risk that BNYMAS will encounter difficulty in meeting obligations from its financial liabilities when they fall due. This risk can arise from mismatches in the timing of cash flows.

The deposits from banks and customers relate to overnight cash balances in customer accounts resulting from the custody and clearing services provided to customers. The balance of these deposits is placed overnight as loans and advances to banks, being with the shareholder. Furthermore BNYMAS has access to substantial liquidity reserves from The Bank of New York Mellon.

Given the limited liquidity risk, access to substantial liquidity reserves and the banking industry practice, BNYMAS does not hold additional capital for this risk.

BNYMAS prepares monthly liquidity reports for submission to De Nederlandsche Bank N.V. The report tests whether the actual weighted liquidity is sufficient to fulfil the required weighted liquidity within one week and within one month. Furthermore, the report is used to report items with a term longer than one month by means of a maturity schedule. As at 31 December 2008 the liquidity reporting reflects a surplus of €997 million (2007: €1,491 million) in liquidity for a period within one week and a surplus of €1,809 million (2007: €2,571 million) in liquidity for a period within one month.

#### **(vi) Interest rate risk**

Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in the interest rate.

BNYMAS B.V. does not and will not hold proprietary positions in interest rate risk. The deposits from customers and the advances to customers and banks are on an overnight basis only and there is no maturity mismatch between assets and liabilities. All customer cash balances are held with the (former) shareholder(s).

The interest margin in the banking book, related to deposits from customers is not directly sensitive to interest rate levels and changes. The interest rates received are close to the agreed benchmark. The interest rates paid to customers are either standard rates or so called preferred rates. Therefore, an increase in interest rates results in a higher interest income and a higher interest expense. The only portion of the interest income that is directly sensitive to the interest rate is the interest income in the banking book for the corporate cash balances (which are also held on an overnight basis only).

Given the limited interest rate risk exposure and interest rate sensitivity BNYMAS does not hold regulatory capital for this risk.

#### **(vii) Other risks**

##### **Business risk**

Business risk is the risk arising from changes in the business, including the risk that the bank may not be able to carry out the desired strategy and business plan. The business risk includes the typical macro economic issues which would affect the overall banking system, such as the weakening of economic conditions or hardening of the operating environment. A further business risk consists of the integration risk following the merger between The Bank of New York and Mellon Financial Corporation (and any other subsequent acquisition activity). The consolidation of the respective legacy companies in terms of products, operations and administrative functions is a timely and costly process and in order to realise the intended benefits and growth opportunities, consideration must be given to any likely fall-out or increased risk. Failure to manage and integrate acquisitions successfully could have a materially adverse effect to the business.

Business Risk is quantified using a correlation model that compares actual and forecast financial data. The regulatory capital held by BNYMAS for business risk is €26,563 thousand (2007: €18,630 thousand).

#### Pension risk

Pension risk is the risk caused by contractual or other liabilities with respect to a pension scheme. BNYMAS has several defined contribution plans and two defined benefit plans in place. The contribution to the direct contribution plan is charged directly to the income statement in the year to which it relates and no additional pension obligation risk is applicable. The pension obligation risk with respect to the defined benefit plans is minimal due to the relatively recent start date of January 1, 2003 and the decreasing number of participants. Furthermore, the shareholders agreed that employees initially transferred would be transferred on a fully funded basis. The employees in the Netherlands are participants of the defined benefit plan and as from January 2008 new employees in the Netherlands will participate in a defined contribution plan. The employees in the UK who were employed before October 10, 2006 participate in the defined benefit plan. Given the above pension obligation risk, it is deemed that no additional capital is required (2007: €0).

#### **(c) Stress testing**

Stress tests are performed for the major risk categories of credit, operational, and business risk. Several scenarios's are identified and calculated on a regular basis. Capital requirements are set to the higher of regular and stressed calculations.

#### **(d) Capital planning**

The purpose of the capital planning process is to align the forecast capital to the forecast capital requirement, thereby maintaining an adequate solvency ratio and Tier 2 / Tier 1 ratio. The capital plan is revised on a monthly basis.

The consequence of the capital planning process is reflected in the financial forecast and budget.

#### **(e) Supervisory framework Basel II**

The Basel Committee on Banking Supervision published a framework for calculating minimum capital requirements known as Basel II. Basel II is structured around three Pillars: minimum capital requirements, supervisory review process and market discipline. The supervisory objectives for Basel II are to promote safety and soundness in the financial system and maintain at least the current overall level of capital in the system; enhance competitive equality; constitute a more comprehensive approach to addressing risks; and focus on internationally active banks.

#### **(i) Pillar 1**

##### **(i-a) Pillar 1 credit risk**

With respect to Pillar 1, the minimum capital requirements Basel II provides three approaches of increasing sophistication to calculate the credit risk regulatory capital. The most basic, the standardised approach, requires a bank to use external credit ratings to determine the risk weighting to be applied to rated customers, and groups other customers into broad categories and applies standardised risk weightings to these categories. In the next level, the internal ratings-based foundation (IRB) approach, allows a bank to calculate their credit risk regulatory capital requirement on the basis of their internal assessment of the probability that a customer will default, but with quantification of exposure and loss estimates being subject to standard supervisory parameters. Finally, the advanced internal ratings based (AIRB) approach, will allow a bank to use their own internal assessment of not only the probability of default but also the quantification of exposure at default and loss given default. BNYMAS has implemented the standardised approach for credit risk.

BNYMAS uses the credit ratings of Standard & Poor's, Moody's and Fitch for all credit risk exposure classes. Issuer credit ratings are translated into counterparty risk weights using the standard association table of DNB. Issue credit ratings are translated into haircuts using the

standard association table of DNB. If no issue ratings are available subject to conditions BNYMAS applies ratings of the issuer.

On-balance netting in a single currency and on customer account level is applied to advances arising from the settlement risk due to the failure of a customer to honour its obligations to deliver cash or securities for a transaction that BNYMAS B.V. has settled for the customer. To these advances also credit risk mitigation is applied under the financial collateral comprehensive method using the supervisory volatility adjustments approach. First cross-currency mitigation with cash deposits is applied on a customer account level and second, if contractually agreed with the customer, assets under custody on customer account level serve as collateral. Assets under custody consist of debt and equity securities held by clients.

Securities lending transactions are inherently collateralised transactions. Collateral margining levels are dependant on the type of securities lent and the collateral received, margin levels vary between 102-105%. BNYMAS B.V. applies the financial collateral comprehensive method using the supervisory volatility adjustments approach for calculating the Basel II Pillar 1 credit risk mitigation related to these exposures. Collateral consists of cash, highly rated government and corporate debt securities and equity securities of major corporations.

#### **(i-b) Pillar 1 operational risk**

Basel II also introduces capital requirements for operational risk and contains three levels of sophistication. The capital required under the basic indicator approach will be a simple percentage of gross revenues, whereas under the standardized approach it will be one of three different percentages of gross revenue allocated to each of eight defined business lines. Finally, the advanced measurement approach uses the statistical analysis and modeling of operational risk from the data accumulated by a bank to determine the capital requirements. BNYMAS has implemented the standardised approach. All activities fall within the business line of agency services.

#### **(i-c) Pillar 1 market risk**

Capital requirements for market risk under Basel II Pillar 1 can be calculated under the standardized approach or using internal models. BNYMAS has implemented the standardised approach. For foreign currency market risk the capital requirements are derived from the net positions in non-base currencies.

#### **Scope of supervision**

The supervision of banks within Europe is at the level of the European holding company of the bank. As a result of the European holding company and direct parent of BNYMAS B.V. being the Company, the reporting and capital requirements are therefore applicable to the Company on a consolidated level. The regulatory capital calculation therefore includes the regulatory capital requirements of both BNYMAS B.V. and the Company. There are no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities between the Company and BNYMAS B.V. Furthermore the Company has provided a guarantee to BNYMAS B.V. in accordance with section 403 of Part 9, Book 2, of the Netherlands Civil Code.

#### **Supervisor**

De Nederlandsche Bank N.V. (DNB) supervises BNYMAS on a consolidated basis and receives information on the capital adequacy. In addition, the individual branches are monitored by their local banking supervisors for their local liquidity requirements.

#### **ICAAP**

The Internal Capital Adequacy Assessment Process (ICAAP) of BNYMAS has been submitted to the DNB for review in 2008. The ICAAP includes:

- (i) A comprehensive assessment of the risks.

- (ii) A governance structure for capital planning.
- (iii) An evaluation of the current and future capital requirements.

BNYMAS has revised the capital adequacy calculation and reporting according to the comments received from DNB.

**(f) Capital adequacy assessment**

**(i) Capital requirements using the standardised approach**

The applied regulatory capital calculation includes the Pillar 1 calculation and the ICAAP calculation. The limitation of the standardised methodology under Pillar 1 is recognised by supplementing the standardised calculation with other risks and calculations and a range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual and overall position. As at 31 December 2008, the calculated total regulatory capital requirements for Pillar 1 and 2, applying the ICAAP capital requirements, is €129.8 million (2007: €155.2 million). Due to the final settlement of the acquisition of BNYMAS B.V., we restated the capital requirements 2007 with an amount of €109 thousand (previously reported 2007: €155.3 million).

The breakdown of the Pillar 1 capital requirements using the standardized approach for credit risk, market risk, and operational risk and of the Pillar 2 requirements for business risk can be summarised as follows:

**Breakdown capital requirements Pillar 1 and Pillar 2**  
As at 31 December 2008

| in €1,000   | Gross exposure    | Average Gross exposure | Net exposure after mitigation | Capital requirements |
|---|-------------------|------------------------|-------------------------------|----------------------|
| Central governments or central banks                  | 62,226            | 57,773                 | 61,725                        | -                    |
| Regional governments or local authorities             | 6,346             | 5,334                  | 1,256                         | 20                   |
| Administrative bodies and non-commercial undertakings | 208               | 107                    | 1                             | -                    |
| Institutions  | 27,199,284        | 45,880,427             | 3,336,268                     | 53,381               |
| Corporates  | 220,632           | 118,617                | 196,298                       | 15,704               |
| Other items   | 23,832            | 32,891                 | 21,203                        | 1,696                |
| <b>Credit risk</b>                                    | <b>27,512,528</b> | <b>46,095,149</b>      | <b>3,616,751</b>              | <b>70,801</b>        |
| <b>Market risk</b>                                    |                   |                        |                               | <b>-</b>             |
| <b>Operational risk</b>                               |                   |                        |                               | <b>32,483</b>        |
| <b>Total Pillar 1</b>                                 |                   |                        |                               | <b>103,284</b>       |
| <b>Business risk (Pillar 2)</b>                       |                   |                        |                               | <b>26,563</b>        |
| <b>Total capital requirement Pillar 1 &amp; 2</b>     |                   |                        |                               | <b>129,847</b>       |

**(ii) Available regulatory capital**

The available regulatory capital is €415.5 million (2007: €317.1 million), resulting in a surplus capital of €285.7 million (2007: €161.9 million). We have restated the comparable 2007 figure to exclude diversification benefits. Due to the final settlement of the acquisition of BNYMAS B.V., we restated the available capital with an amount of €1.1 million (previously reported 2007: €318.2 million).

**Available regulatory capital for solvency purposes**  
on consolidated level of BNYMAS  
**As at 31 December 2008**

| <i>in € 1,000</i>  | <b>2008</b>      | <b>2007</b>      |
|--|------------------|------------------|
| Paid up capital  | 45               | 45               |
| Share premium  | 541,581          | 541,581          |
| <b>Eligible capital</b>                                    | <b>541,626</b>   | <b>541,626</b>   |
| Reserves   | (1,540)          | -                |
| <b>Eligible reserves</b>                                   | <b>(1,540)</b>   | -                |
| Income (loss) from current year                            | 96,946           | (1,540)          |
| <b>Profits</b>   | <b>96,946</b>    | <b>(1,540)</b>   |
| (-) Intangible assets                                      | (313,990)        | (315,478)        |
| <b>(-) Other deductions from original own funds</b>        | <b>(313,990)</b> | <b>(315,478)</b> |
| <b>Original own funds (Tier 1)</b>                         | <b>323,042</b>   | <b>224,608</b>   |
| Core additional own funds                                  | 46,250           | 46,250           |
| Securities of indeterminate duration and other instruments | 46,250           | 46,250           |
| <b>Additional own funds (Tier 2)</b>                       | <b>92,500</b>    | <b>92,500</b>    |
| <b>Total own funds for solvency purposes</b>               | <b>415,542</b>   | <b>317,108</b>   |

*Intangible assets*

The intangible assets consist of goodwill €278,278 thousand (2007: €278,278 thousand) and client contracts €35,712 thousand (2007: €37,200).

*Additional own funds*

On December 19, 2007 BNY Mellon GSS Holdings (Luxembourg) Sarl (100% owned by The Bank of New York Mellon) provided the Company with two subordinated loans; €46.25 million with an annual interest rate of 6.05% and end date of 31 October 2017 (lower Tier 2) and €46.25 million with an annual interest rate of 6.75% with no end date (Upper Tier 2).

**(iii) Reviewing capital requirements**

The principal ratio for reviewing the capital adequacy of BNYMAS is the regulatory capital as a percentage of capital requirements. The ratio is monitored on a monthly basis, including the comparison between the benchmark ratio and the actual ratio. The ratio indicates capital adequacy to risks including off-balance sheet commitments expressed as risk-weighted items in order to reflect their relative risk. As at 31 December 2008 the Basel II solvency ratio (Tier 1 plus Tier 2) was 25.6% (2007: 16.3%), where the Tier 1 ratio is 19.9% (2007: 11.6%). We have restated the comparable 2007 figure to exclude diversification benefits.

The breakdown of credit risk exposures using risk weights can be summarised as follows:

**Breakdown of exposure by risk weights**  
As at 31 December 2008

| in €1,000          | Gross exposure    | Fully adjusted exposure value |
|--------------------|-------------------|-------------------------------|
| 0%                 | 62,030            | 61,725                        |
| 10%                | -                 | -                             |
| 20%                | 27,205,629        | 3,337,524                     |
| 35%                | -                 | -                             |
| 50%                | 196               | -                             |
| 75%                | -                 | -                             |
| 100%               | 244,672           | 217,502                       |
| <b>Credit risk</b> | <b>27,512,528</b> | <b>3,616,751</b>              |

The breakdown of credit risk by exposure type and by industry can be summarised as follows:

**Breakdown by exposure type and Industry**  
As at 31 December 2008

| in €1,000   | Corporates     | Financial institutions | Public administrations | Other         | Total             |
|---|----------------|------------------------|------------------------|---------------|-------------------|
| Central governments or central banks                  | -              | 60,615                 | 1,611                  | -             | 62,226            |
| Regional governments or local authorities             | -              | -                      | 6,346                  | -             | 6,346             |
| Administrative bodies and non-commercial undertakings | -              | -                      | -                      | 208           | 208               |
| Institutions  | -              | 27,199,284             | -                      | -             | 27,199,284        |
| Corporates  | 220,632        | -                      | -                      | -             | 220,632           |
| Other items   | -              | -                      | -                      | 23,832        | 23,832            |
| <b>Credit risk</b>                                    | <b>220,632</b> | <b>27,259,899</b>      | <b>7,957</b>           | <b>24,040</b> | <b>27,512,528</b> |

The breakdown of credit risk exposure type and geographical area can be summarised as follows:

**Breakdown by exposure type and geographical area**  
As at 31 December 2008

| in €1,000   | EMEA              | Americas     | Asia & Oceania   | total             |
|---|-------------------|--------------|------------------|-------------------|
| Central governments or central banks                  | 62,193            | -            | 33               | 62,226            |
| Regional governments or local authorities             | 6,346             | -            | -                | 6,346             |
| Administrative bodies and non-commercial undertakings | 208               | -            | -                | 208               |
| Institutions  | 21,115,992        | 1,555        | 6,081,737        | 27,199,284        |
| Corporates  | 220,114           | 123          | 395              | 220,632           |
| Other items   | 23,832            | -            | -                | 23,832            |
| <b>Credit risk</b>                                    | <b>21,428,685</b> | <b>1,678</b> | <b>6,082,165</b> | <b>27,512,528</b> |

The breakdown of credit risk by exposure type and maturity can be summarised as follows:

**Breakdown by exposure type and maturity**  
As at 31 December 2008

| in €1,000   | Overnight        | <5 days           | < 1 month     | > 1 year       | total             |
|---|------------------|-------------------|---------------|----------------|-------------------|
| Central governments or central banks                  | 1,611            | -                 | 60,615        | -              | 62,226            |
| Regional governments or local authorities             | 6,346            | -                 | -             | -              | 6,346             |
| Administrative bodies and non-commercial undertakings | 208              | -                 | -             | -              | 208               |
| Institutions  | 2,629,011        | 24,431,364        | -             | 138,909        | 27,199,284        |
| Corporates  | 220,632          | -                 | -             | -              | 220,632           |
| Other items   | 3,221            | -                 | 20,611        | -              | 23,832            |
| <b>Credit risk</b>                                    | <b>2,861,029</b> | <b>24,431,364</b> | <b>81,226</b> | <b>138,909</b> | <b>27,512,528</b> |