THE BANK OF NEW YORK MELLON

Mellon International Holdings Sarl.

Pillar 3 Disclosures for the year ended 31st December 2008

31st March 2009

About Pillar 3 Disclosure

A. Alignment of disclosures within UK regulated entities

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

B. Policy and approach

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

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

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

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

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

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

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

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

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

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

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

Mellon International Holdings Sarl
Pillar 3 Disclosures

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1. Introduction

These disclosures are about **Mellon International Holdings Sarl ('MIH')** 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 Mellon International Holdings SARL and its subsidiary undertakings (together the 'group'). MIH implemented the Basel II standardised approach for calculating credit and market risk on 1st January 2008.

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

1.1. Purpose of Pillar 3

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

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

2. Scope and Application of Directive Requirements

MIH is a Luxembourg registered holding company and a wholly owned subsidiary of the Bank of New York Mellon Corporation. MIH is an intermediate holding company with no direct operational activities.

The MIH group is subject to consolidated supervision by UK Financial Services Authority. MIH's major operating subsidiaries have regulatory permissions to operate as investment advisors and discretionary fund managers. As limited licence firms under Basel II, theses entities are not authorised to (i) deal on their own account; or (ii) provide the investment services of underwriting or placing financial instruments on a firm commitment basis.

MIH consolidates the financial impact of its subsidiaries, associates and joint ventures including the following UK regulated operating entities:

Legal entity	Business	Registered	Accounting consolidation method
Newton Investment Management Limited (NIM)	Investment management	UK	Wholly owned subsidiary, fully consolidated
Pareto Investment Management Limited (PIM)	Investment management	UK	Wholly owned subsidiary, fully consolidated
BNYM Asset Management International Limited (BNYM AMI)	Investment management	UK	Wholly owned subsidiary, fully consolidated
Walter Scott & Partners Limited (WSP)	Investment management	UK	Wholly owned subsidiary, fully consolidated

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

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

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

3. Risk Management Objectives and Policies

3.1. Risk Objectives

MIH, through its operating entities seeks to proactively manage and minimise risks specifically, credit, operational, compliance, and business risks. The level of residual operational risk is managed by rigorous operating policies, procedures and controls.

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

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

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

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

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

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

3.2. Business Risk

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

3.3. Operational Risk

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

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

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

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

3.4. Compliance Risk

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

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

As a subsidiary of BNYMC, MIH 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 MIH 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.

3.5. Credit Risk

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

Credit risk is seen as relatively low, considering that a majority of assets are either cash deposits or outstanding fees from institutional clients of the underlying Asset Management entities.

3.6. Scope and Nature of Risk Reporting Systems

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

3.7. Governance, Policies & Risk Management Structure

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

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

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

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

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

4. Capital Resources

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

The table below summarises the composition of regulatory capital for the MIH group and significant subsidiary companies as reported to the FSA as at 31st December 2008. The group did not have any Innovative Tier 1 capital resources, Tier 2 or Tier 3 capital as at 31st December 2008.

Capital resources (unaudited)	Notes	MIH Group consolidated	Significant subsidiaries			
			BNYM AMI	NIM	PIM	WSP
		£000's	£000's	£000's	£000's	£000's
Tier 1 capital						
Called up share capital		60	31,300	35,500	8,442	25
Share premium account		1,124,449			17,442	0
Retained earnings and other reserves		87,896	32,183	63,245	34,585	40,973
Unaudited net profits	1	0	0	0	0	0
		1,212,405	63,483	98,745	60,469	40,998
Deductions from Tier 1 capital						
Intangible assets	2	-768,967		-8,674		
Total Tier 1 capital after deductions		**443,438**	**63,483**	**90,071**	**60,469**	**40,998**
Deduction from total of Tier 1						
Material Holdings	3	**-96,938**			**-139**	
Total capital resources after deductions		**346,500**	**63,483**	**90,071**	**60,330**	**40,998**

1. Unaudited Profits are not reported to the FSA as part of Tier one capital. As of the date of this report, 2008 profits have not been audited and are therefore excluded from capital.
2. Group Intangible assets comprise mostly Goodwill.
3. Group Material holdings are in respect of an investment in Mellon Joint Venture Limited
4. Information about Capital terms and conditions is set out in the Companies Annual Report and Accounts 2008

5. Capital Requirements and Adequacy

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

For MIH, 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.

The following table shows the MIH group and significant subsidiary company's capital requirements by exposure class and capital adequacy surplus as at 31st December 2008.

Exposure class (unaudited)	MIH Group consolidated	Significant subsidiaries			
		BNYM AMI	NIM	PIM	WSP
	£000's	£000's	£000's	£000's	£000's
Credit risk - standardised approach					
Institutions	6,758	817	2,554	784	599
Corporates	6,027	1,585	563	347	1
Other Items	24,412	1,763	3,321	732	2,482
Total (1)	**37,197**	**4,165**	**6,438**	**1,863**	**3,082**
Market risk					
Concentration Position Risk Requirement			320		
Foreign currency Position Risk Requirement	3,478	1,217	180	59	1,404
Total (2)	**3,478**	**1,217**	**500**	**59**	**1,404**
Total Credit & Market risk requirements (1+2)	40,675	5,382	6,938	1,922	4,486
Fixed Overhead Requirement (3)	79,120	10,523	23,781	3,877	1,478
Total Capital Requirements (higher of 1+2 or 3)	**79,120**	**10,523**	**23,781**	**3,877**	**4,486**
Capital Surplus	**267,380**	**52,960**	**66,290**	**56,453**	**36,512**

1. Minimum Capital Requirements (MCR) are established with reference to the Credit, Market and Fixed Overhead requirements under Pillar 1 rules for limited licence groups in the UK. The Fixed Overhead Requirement is calculated as 25% of annual expenditure not including variable elements such as incentive based compensation. The total MCR is the higher of Credit plus Market Risk requirements or the Fixed Overhead requirement.
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.
3. Other items Capital requirements is predominantly in respect of Trade and other debtors, interest and accounts receivable, prepayments and includes a capital charge for fixed assets.

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

6. Counterparty Credit Risk

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

7. Credit Risk

7.1. Risk management

For Investment Management companies in the MIH group, credit risk principally covers default risk from counterparties or clients for any asset where realisation of the value of the asset is dependent on counterparties ability to perform eg fees and interest receivable. Operational risk around collectability is managed within each company through rigorous operating policies, procedures and controls with emphasis on timely identification and follow up of *at risk* assets.

7.2. Exposure

Credit Risk for MIH is calculated using the Standardised approach.

The definition of exposure used in this report is consistent with that recommended by the BBA Pillar 3 Working party. Except where stated, exposure is defined as **Exposure at Default (EAD) PRE Credit Risk Mitigation** (CRM) i.e. a regulatory exposure value after the application of Credit Conversion Factors (CCF) for off balance sheet items including undrawn commitments and after netting but before application of Credit Risk Mitigation factors eg property, other physical collateral. The calculation of EAD therefore takes into account both current exposure and potential drawings prior to default over a 12 month time horizon. As such, Exposure in this context may differ from statutory GAAP accounting balance sheet carrying values.

The following credit risk disclosures (i-iv) are about **MIH group (unaudited)**.

i. Standardised gross Credit exposure (EAD pre CRM)

As at 31st December 2008

Standardised exposure classes	Notes	MIH EAD pre CRM	MIH Average EAD pre CRM
		£000's	£000's
Institutions	2	422,363	403,962
Corporates	3	75,334	101,481
Other items	4	283,567	260,401
Total		**781,264**	**765,844**

1. Standardised exposure classes are defined by FSA in BIPRU 3
2. Institutions exposure comprises cash at bank and in hand
3. Corporates exposure amounting to £75 million comprises seed-money investments of £33 million in various funds and intercompany assets of £42 million.
4. Other items principally comprises trade and other debtors, interest and accounts receivable and prepayments
5. Average exposure is based on the last two quarters of 2008.

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

As at 31st December 2008

Standardised exposure classes	UK	Europe, Middle East & Africa	North America	Asia Pacific	MIH Total
	£000's	£000's	£000's	£000's	£000's
Institutions	378,146		1,347	42,870	422,363
Corporates	19,252	20,815	30,429	4,838	75,334
Other items	224,937	18,581	13,758	26,2911	283,567
Total	**622,335**	**39,396**	**45,534**	**73,999**	**781,264**

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

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

As at 31st December 2008

Industry sector	Institutions	Corporates	Other items	MIH Total
	£000's	£000's	£000's	£000's
Banks & Other financial	422,363	75,334	283,567	781,264
Total	**422,363**	**75,334**	**283,567**	**781,264**

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

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

As at 31st December 2008

Standardised exposure classes	On demand	Up to 1 year ex on demand	MIH Total
	£000's	£000's	£000's
Institutions	422,363		422,363
Corporates	75,334		75,334
Other items		283,567	283,567
Total	**497,697**	**283,567**	**781,264**

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

7.3. *Impaired and Past due assets and Provisions*

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

As at 31st December 2008, neither MIH nor any of its subsidiaries had any impaired assets for which a specific or general provision had been raised. There were no assets Past due greater than 90 days. Neither MIH nor any of its subsidiaries incurred any write-offs of bad debts or make any recovery of amounts previously written off during the year to 31st December 2008.

7.4. *Credit Risk Standardised Approach*

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

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

The following disclosures (i & ii) about MIH are presented for the most significant exposure classes and reflect exposure value pre and post CRM associated with each credit quality step prescribed in BIPRU 3.

Standardised exposure by Credit Quality Step

i. Institutions

As at 31st December 2008

Credit Quality Step	Risk weight	MIH EAD pre CRM	MIH EAD post CRM
	%	£000's	£000's
1	20%	360,735	360,735
2	50%	61,628	61,628
Total		**422,363**	**422,363**

ii. Corporates

As at 31st December 2008

Credit Quality Step	Risk weight	MIH EAD pre CRM	MIH EAD post CRM
	%	£000's	£000's
Unrated	100%	75,334	75,334
Total		**75,334**	**75,334**

Corporates exposure amounting to £75 million comprises seed-money investments of £33 million in various funds and intercompany assets of £42 million.

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-

8. Market Risk

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.

9. Operational Risk

There is no regulatory capital requirement for operational risk due to MIH group being represented solely by BIPRU limited licence firms with a fixed overhead capital requirement

The BNYMC group has set extensive Operational risk policies that have been adopted by the operating entities within the MIH 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 risk, monitor key risk indicators and to 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. MIH and its subsidiaries operate within the Asset Management sector. The performance of self assessment by line of business is recorded on a globally maintained platform. Platforms also capture key risk indicators and operational risk events (losses, gains and near misses). Business managers are responsible for performance of self assessment, which is identifying the risks associated with key business processes, identifying and assessing the quality of controls in place to mitigate risk, and assigning accountability for maintaining the effectiveness of those controls and remediation of any weakness. The Sector Risk Manager oversees the output and recording of this assessment with support and approval of Senior Management.

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

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

10. Non-trading book exposures in equities

As at 31st December 2008, neither MIH nor any of its subsidiaries had any equity exposure in the non-trading book.

11. Interest Rate Risk in the non-trading book

The group principally comprises Asset Management companies which do not run banking books for exposure management purposes and as such, interest rate risk is not a significant risk for the group as a whole.

12. Securitisation

As at 31st December 2008, neither MIH nor any of its subsidiaries had any risk weighted exposure calculated under BIPRU 9. During the year ended 31st December 2008, neither MIH nor any of its subsidiaries was active as originator or sponsor of any traditional or synthetic securitisation including securitised revolving exposures. As a result, at year end there were no impaired or past due assets previously securitised or associated gains or losses recognised during the year. Neither MIH nor any of its subsidiaries had any investments in third party securitisations on its balance sheet at year end.

13. Credit Risk Mitigation

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

14. Insurance for the purpose of mitigating Operational Risk

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