



Mellon International Holdings S.A.R.L.
Pillar 3 Disclosures for the year ended 31st December 2009

Published 31st March 2010

About Pillar 3 Disclosure

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.

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 Mellon International Holdings S.A.R.L. and its regulated UK subsidiaries.

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.

Pillar 3 disclosures will be published annually as at the company's 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.

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

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 S.A.R.L.

Pillar 3 Disclosures

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1. Introduction

These disclosures are about **Mellon International Holdings S.A.R.L.** ('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 S.A.R.L. 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 company first made Pillar 3 disclosure for the year ended 31st December 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.

The 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. Such limited licence firms under Basel II, are not authorised to (i) deal on their own account; or (ii) provide investment services such as 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:

:

UK regulated 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
Blackfriars Asset Management Limited (Blackfriars)	Investment management	UK	Wholly owned subsidiary, fully consolidated
Insight Investment Management (Global) Limited (Insight)	Investment management	UK	Wholly owned subsidiary, fully consolidated

Blackfriars Asset Management Limited

Following its acquisition in December 2008, Blackfriars Asset Management Limited is a wholly owned subsidiary of MIH. As such, the MIH BOD do not consider it necessary to publish solo disclosures for this firm. Risk management practices are integrated in the group structure. Details about the firm's capital resources and adequacy are shown in this paper.

2.1. 2009 events

Credit and liquidity crisis 2008-2009

Investment Management subsidiaries of MIH each closely monitored the crisis situation as regards its impact on the firm, its clients and markets.

Individual Firm's governance and oversight was focused on the performance of their risk management regime (measurement and monitoring) and, management took necessary steps to improve operational control, risk management practices and procedures to ensure that the firms survived intact.

In general, MIH regulated firm's diversified product mix and distribution capability enabled them to respond to the changing environment and client sentiment globally and geographical diversification meant weak sales performance in some markets was compensated for in others. Existing and prospective clients increasingly understand and value the BNY Mellon Asset Management multi-boutique model. The firms reputation as having a first class international distribution capability has been reinforced.

Acquisitions

On 2 November, 2009 BNY Mellon announced that it had completed the acquisition of **Insight Investment Management Limited** from Lloyds Banking Group plc. Based in London, Insight Investment specialises in Liability Driven Investment (LDI) solutions, active Fixed Income and Absolute Return. Its clients include some of the UK's largest pension schemes, corporates, insurance companies and local authorities, along with a growing number of non-UK clients and some of the best known financial services and intermediary companies. Insight Investment's assets under management, net of identified internal assets that were retained by another part of the Lloyds Banking Group, were on acquisition approximately \$133 billion (£83 billion). Insight Investment joins the other investment boutiques at BNY Mellon Asset Management¹ a leading global

¹ BNY Mellon Asset Management is a leading global provider of investment management products and services offering a broad range of equity, fixed-income, hedge and liquidity management products through individual asset management companies and multiple distribution channels. Its other investment boutiques include The Alcentra Group, Ankura Capital, Blackfriars Asset Management, BNY Mellon ARX, The Boston Company Asset Management, EACM Advisors, Ivy Asset Management, Mellon Capital Management, Mellon Global Alternative Investments, Newton Investment Management, Pareto Investment Management, Standish Asset Management Urdang, Walter Scott, WestLB Mellon Asset

asset management franchise. As a consequence, BNY Mellon Asset Management has become one of the largest managers of UK pension funds and UK mutual funds. Founded in 2002, Insight Investment has delivered year on year organic growth in assets under management. Through the development of its specialist investment capabilities, Insight Investment is now the third largest manager of UK pension funds. Despite a difficult market environment in 2008, Insight Investment was the fastest growing UK institutional asset manager with strong growth in assets under management, revenue and profitability. In 2009, these positive trends continued as Insight Investment has expanded its external client franchise through net sales in LDI solutions and sustained growth in Fixed Income, Absolute Return, Multi-Asset and liquidity strategies.

A phased integration of Insight and its subsidiaries and transition to MIH risk management practices and standards is underway. The two regulated companies within the Insight Group authorised by the FSA are Insight Investment Management (Global) Limited; and, Insight Investment Funds Management Limited. Details about the firm's capital resources and adequacy are shown in this paper.

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.

Management and Hamon Investment Group. The Dreyfus Corporation serves mutual fund and retail intermediary clients in the United States, while BNY Mellon Asset Management International serves non-U.S. clients. Other information is available at www.bnymellonam.com.

3. Risk Management Objectives and Policies

3.1 Risk Objectives

MIH, through its operating entities proactively manages risk, principally business, credit, operational, liquidity, and compliance risks. These are described more fully below. 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 Chief Risk Officer of the EMEA region chairs the EMEA Risk Committee, which serves as an independent regional controls forum. This committee consists of senior managers across the lines of business and relevant 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 to be 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 been assessed under a severe economic downturn scenario and was found to be adequate.

3.2 Business Risk

MIH's main business risk drivers are key man risk, a prolonged bear market and persistent poor performance of managed funds. The MIH Board

accepts these risk as a necessary feature of its operating model and has set its' risk appetite accordingly.

3.3 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 exposure 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, however the entities are looking to diversify the cash deposits across institutions and products.

3.4 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 gaps or weakness.

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

3.5 Liquidity risk

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.

MIH S.A.R.L.

MIH S.A.R.L. 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.

MIH and MIL are holding companies for investment management subsidiaries. They do not carry out any trading activities. To make new acquisitions, MIH may raise funds from BNYM group on a match funded basis through debt, equity or a mix or, utilise existing resources.

MIH Regulated subsidiaries

Under devolved authority from MIH, each UK regulated subsidiary is self sufficient in terms of liquidity resources and funding. In outline, MIH limited licence investment management subsidiaries have a low appetite for liquidity risk in keeping with their business model. Typically, firms receive investment management and performance fees, pay out overheads and other expenses and hold surplus cash balances with group companies and third party banks at short notice. Firms do not hold client cash on their balance sheet, have no retail deposits and do not make loans to clients. Firms do not have any off balance sheet or derivatives exposures.

Sources of liquidity risk are mostly inter group and franchise viability related. On a day to day basis, liquidity and funding requirements are managed under delegated authority by BNY Mellon London branch Treasury on behalf of the firms.

Regulated Limited Licence MIH subsidiaries fall under an EMEA Programme designed to ensure that each firm complies with new FSA Liquidity Standards (PS 09/16) issued in October 2009 (BIPRU 12). This is an ongoing programme of work designed to upgrade and embed senior management governance and oversight capability, and to establish procedures around measurement and monitoring of risk. The first reporting

requirement to FSA under BIPRU 12 is in January 2011.

In summary, FSA Systems and Control requirements oblige the firms 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 inform the governing body's decisions on whether the firm's liquidity risk appetite should be amended and form the basis of a Contingency Funding Plan.

In this matter, a common *Liquidity Risk Management Framework* (LRM) and Operating Model applies to all MIH regulated subsidiaries, customised to fit local circumstances and proportionate to and reflective of individual firms' business model. In overview, the LRM framework sets out the principles and elements of the regime and the components thereof. In meeting these requirements, regulated firms have in place the following:

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

Currently, steps are being taken to embed Stress Testing within each regulated firm. This is an ongoing programme of work which will result in an upgraded Contingency Funding Plan by end of Q2 2010. Stress testing at the firm level will cover idiosyncratic, market wide and combination (worst case) events with behavioural assumptions that are approved by the BOD and which are modelled across short term (up to two weeks) and protracted (from two weeks to 3 months) time horizons.

At 31st December 2009, MIH regulated subsidiaries generally had a strong liquidity base. These firms do not have any collateral positions to manage, nor is it necessary for them to actively manage liquidity across legal entities, business lines or currencies.

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.

3.6 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, 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.

3.7 Scope and Nature of Risk Reporting Systems

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

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. Risk systems development is a key responsibility of group IT while the operation and development of risk rating and management systems and processes are subject to oversight by various levels of management up to the Board of Directors.

The measurement and monitoring of the major risks encountered by the company including operational risks, are increasingly delivered by a central platform or, where for sound business reasons this is not the case, through structures and processes that support comprehensive oversight by senior management.

There is regular reporting on risk to business line management, to specialist functions and to the senior management of the company.

3.8 Governance, Policies & Risk Management Structure

Policies and procedures that are 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. On an ongoing basis, MIH management seeks to improve the effectiveness of the governance process through upgrade of policies and risk management procedures.

The MIH 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 MIH 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 Key Risk Indicators and oversee the effective management of operational events. As a global business, BNYMC

organises its activities into sectors e.g.: 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 MIH 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.

4. Capital Resources

During the year ended 31st December 2009, 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 2009. The group did not have any Innovative Tier 1 capital resources, Tier 2 or Tier 3 capital as at 31st December 2009 (2008: nil).

4.1 Regulatory Capital for MIH group and regulated UK subsidiaries

As at 31st December 2009

Capital resources (unaudited)	Notes	MIH Group consolidated	Significant subsidiaries (UK regulated)					
			BNYM AMI	NIM	PIM	Insight	Blackfriars	WSP
		£000's	£000's	£000's	£000's	£000's	£000's	£000's
Tier 1 capital								
Called up share capital		70	31,300	35,553	7,643	36,000	37,000	25
Share premium account		1,402,730			15,792	1	12,431	52,670
Retained earnings and other reserves		245,785	45,259	111,372	32,143	9,189	-34,962	
Unaudited net profits	1			-33,921	-5,222		-6,721	
		1,648,585	76,559	113,004	50,355	45,190	7,748	52,695
Deductions from Tier 1 capital								
Intangible assets	2	-1,068,597		-6,671				
Total Tier 1 capital after deductions		579,988	76,559	106,333	50,355	45,190	7,748	52,695
Deduction from total of Tier 1								
Material Holdings	3	-87,253	-1,181		-126			
Illiquid assets								-3,773
Total capital resources after deductions		492,735	75,378	106,333	50,229	45,190	7,748	48,922

1. Unaudited Profits are not reported to the FSA as part of Tier 1 capital. As of the date of this report, 2009 profits have not been audited and are therefore excluded from capital. Forecast losses are included as a deduction from Tier 1 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 2009

5. Non-UK regulated firms include BNYM AMI Japan with total capital of £40 million and Mellon JV limited with total capital of £92 million.

As at 31st December 2008

Capital resources (unaudited)	Notes	MIH Group consolidated	Significant subsidiaries (UK regulated)				
			BNYM AMI	NIM	PIM	Blackfriars	WSP
		£000's	£000's	£000's	£000's	£000's	£000's
Tier 1 capital							
Called up share capital		60	31,300	35,500	8,442	25,500	25
Share premium account		1,124,449			17,442	12,432	
Retained earnings and other reserves		87,896	32,183	63,245	34,585	-33,898	40,973
Unaudited net profits	1					-944	
		1,212,405	63,483	98,745	60,469	3,090	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	3,090	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	3,090	40,998

1. Unaudited Profits are not reported to the FSA as part of Tier 1 capital. As of the date of the 2008 report, profits had not been audited and are therefore excluded from capital. Forecast losses are included as a deduction from Tier 1 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

5.1 Overview

BNYM 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 MIH Board, 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 2009 Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) 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.

5.2 Capital Requirements and Adequacy

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 2009.

5.2.1 Capital requirements by exposure class and capital adequacy surplus

As at 31st December 2009

Exposure class (unaudited)	MIH Group consolidated	Significant subsidiaries (UK regulated)					
		BNYM AMI	NIM	PIM	Insight	Blackfriars	WSP
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Credit risk - standardised approach							
Institutions	8,621	1,276	2,108	595	346	163	791
Corporates	5,053	915	495	258	287	0	759
Other Items (Note 3)	17,277	563	2,489	722	2,873	67	2,158
Total (1)	30,951	2,754	5,092	1,575	3,506	230	3,708
Market risk (Note 2)							
Concentration Position Risk Requirement							
Foreign currency Position Risk Requirement	4,887	1,657	276	37	173	124	0
Total (2)	4,887	1,657	276	37	173	124	0
Total Credit & Market risk requirements (1+2)	35,838	4,411	5,368	1,612	3,679	354	3,708
Fixed Overhead Requirement (3) (Note 1)	57,689	13,102	17,879	3,589	23,161	2,213	1,472
Total Capital Requirements (higher of 1+2 or 3)	57,689	13,102	17,879	3,589	23,161	2,213	3,708
Capital Surplus	435,046	62,276	88,454	46,640	22,029	5,535	45,214
Solvency ratio							
Capital resources / Capital requirements	854.12%	575.32%	594.74%	1399.53%	195.11%	350.11%	1319.36%

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.

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.

As at 31st December 2008

Exposure class (unaudited)	MIH Group consolidated	Significant subsidiaries (UK regulated)				
		BNYM AMI	NIM	PIM	Blackfriars	WSP
	£000's	£000's	£000's	£000's	£000's	£000's
Credit risk - standardised approach						
Institutions	6,758	817	2,554	784	122	599
Corporates	6,027	1,585	563	347		1
Other Items (Note 3)	24,412	1,763	3,321	732		2,482
Total (1)	37,197	4,165	6,438	1,863	122	3,082
Market risk (Note 2)						
Concentration Position Risk Requirement			320			
Foreign currency Position Risk Requirement	3,478	1,217	180	59	226	1,404
Total (2)	3,478	1,217	500	59	226	1,404
Total Credit & Market risk requirements (1+2)	40,675	5,382	6,938	1,922	348	4,486
Fixed Overhead Requirement (3) (Note 1)	79,120	10,523	23,781	3,877	2,491	1,478
Total Capital Requirements (higher of 1+2 or 3)	79,120	10,523	23,781	3,877	2,491	4,486
Capital Surplus	267,380	52,960	66,290	56,453	599	36,512
Solvency ratio						
Capital resources / Capital requirements	437.94%	603.28%	378.75%	1556.10%	124.05%	913.91%

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.

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.

5.3 Retail and Equity exposures

The MIH group had no retail or material equity exposures as at 31st December 2009 (2008: 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 2009, 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 (2008: nil).

7. Credit Risk

Credit Risk for MIH is calculated using 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, the MIH group uses the external credit assessments of recognised credit rating agencies (i.e. Moody's, Standard & Poor's and Fitch, where appropriate). See section 7.4 for details.

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 e.g. 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

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.

Credit Exposures

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

i. Standardised gross Credit exposure (EAD pre CRM)

Standardised exposure classes	Notes	MIH EAD pre CRM	MIH Average EAD pre CRM	MIH EAD pre CRM	MIH Average EAD pre CRM
		At 31 st Dec 2009	At 31 st Dec 2009	At 31 st Dec 2008	At 31 st Dec 2008
		£000's	£000's	£000's	£000's
Institutions	2	538,506	472,046	422,363	403,962
Corporates	3	63,392	58,411	75,334	101,481
Other items	4	188,950	165,728	283,567	260,401
Total		790,848	696,185	781,264	765,844

- Standardised exposure classes are defined by FSA in BIPRU 3
- Institutions exposure comprises cash at bank and in hand
- Corporates exposure amounting to £63 million comprises seed-money investments of £50 million in various funds (2008: £33million) and intercompany assets of £13 million (2008 £42 million). Seed money investments are reported as Corporate exposures (quoted investments carried as current assets on balance sheet at fair value with change in value reported in P&L) and not as non-trading book exposures in equities.
- Other items principally comprises trade and other debtors, interest and accounts receivable and prepayments
- Average exposure is based on the last two quarters of each year.

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

As at 31st December 2009

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	475,566	27,292	8	35,640	538,506
Corporates	38,940	6,337	8,198	9,917	63,392
Other items	126,296	24,521	19,888	18,245	188,950
Total	640,802	58,150	28,094	63,802	790,848

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

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	26,291	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 2009

Industry sector	Institutions	Corporates	Other items	MIH Total
	£000's	£000's	£000's	£000's
Banks & Other financial	538,506	63,392	188,950	790,848
Total	538,506	63,392	188,950	790,848

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

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 2009

Standardised exposure classes	On demand	Up to 1 year ex on demand	MIH Total
	£000's	£000's	£000's
Institutions	538,506		538,506
Corporates	63,392		63,392
Other items		188,950	188,950
Total	601,898	188,950	790,848

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

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 2009, neither MIH nor any of its subsidiaries had any impaired assets for which a specific or general provision had been raised (2008: nil). 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 2009 (2008: nil).

7.4 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 disclosures (i & ii) about MIH group 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.

i. Institutions

As at 31st December 2009

Credit Quality Step	Risk weight	MIH EAD pre CRM	MIH EAD post CRM
	%	£000's	£000's
1	20%	479,945	479,945
2	20%	58,560	58,560
Total		538,506	538,506

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	20%	61,628	61,628
Total		422,363	422,363

ii. Corporates

As at 31st December 2009

Credit Quality Step	Risk weight	MIH EAD pre CRM	MIH EAD post CRM
	%	£000's	£000's
Unrated	100%	63,392	63,392
Total		63,392	63,392

Corporates exposure amounting to £63 million comprises seed-money investments of £50 million in various funds and intercompany assets of £13 million. Seed money investments are reported as Corporate exposures (quoted investments carried as current assets on balance sheet at fair value with change in value reported in P&L) and not as non-trading book exposures in equities.

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 comprised seed-money investments of £33 million in various funds and intercompany assets of £42 million.

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-

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 (2008: nil).

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; and, reputation damage.

10. Non-trading book exposures in equities

As at 31st December 2009, neither MIH nor any of its subsidiaries had any equity exposure in the non-trading book (2008: nil). Seed money investments are reported as Corporate exposures (quoted investments carried as current assets on balance sheet at fair value with change in value reported in P&L) and not as non-trading book exposures in equities.

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 2009, neither MIH nor any of its subsidiaries had any risk weighted exposure calculated under BIPRU 9 (2008: nil). During the year ended 31st December 2009, neither MIH nor any of its subsidiaries was active as originator or sponsor of any traditional or synthetic securitisation including securitised revolving exposures (2008: 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 (2008: nil). Neither MIH nor any of its subsidiaries had any investments in third party securitisations on its balance sheet at year end (2008: nil).

13. Credit Risk Mitigation

As at 31st December 2009, 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 (2008: nil).

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.

15. 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 (ICAAP) is 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.
- **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.
- **Wrong-way risk:** Defined by the FSA as a situation where there is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction.

16. Contacts

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