

Pershing Holdings (UK) Ltd

Pillar 3 Disclosures for the year ended 31st December 2008

About Pillar 3 Disclosures

A. Alignment of Disclosures within UK Regulated Entities

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

B. Policy and Approach

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

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

Information in this disclosure 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 and additionally during the year as market or business conditions dictate.

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 Board of Directors 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 Board of Directors 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 Board of Directors 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 confidential.

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

These disclosures are published on Pershing Europe's website (www.Pershing.co.uk) under Financial and Regulatory Disclosures.

Disclosures can also be found on The Bank of New York Mellon group ('BNYM') website (www.bnymellon.com), see section investor relations, financial reports, other regulatory filings.

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

Contents

	<i>Page</i>
1. Background	4
2. Scope and Application of Directive Requirements	4
3. Risk Management Objectives and Policies	5
4. Capital Resources	8
5. Capital Requirements and Adequacy	9
6. Credit Risk and Dilution Risk	10
7. Standardised Risk Weighting	15
8. Operational Risk.....	16
9. Interest Rate Risk in the Non-Trading Book.....	16
10. Non-Trading Book Exposures in Equities	16
11. Credit Risk Mitigation.....	16
12. Disclosures not Relevant.....	17

1. Background

This document serves as the Basel II Pillar 3 disclosures of Pershing Holdings (UK) Limited (Pershing Europe) in accordance with the Financial Services Authority ('FSA') General Prudential Sourcebook ('GENPRU') and Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU 11'). Pershing Europe 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.

1.1. Purpose of Pillar 3

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

- **Pillar 1** establishes rules for the calculation of minimum capital for credit, market and operational risk.
- **Pillar 2** is an internal discipline to evaluate the adequacy of the regulatory capital requirement under Pillar 1 and other non Pillar 1 risks. This pillar requires the FSA to undertake a supervisory review to assess the robustness of Pershing Europe'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.

2. Scope and Application of Directive Requirements

Pershing Holdings (UK) Limited is the London based, wholly owned and operationally independent subsidiary of Pershing Group LLC which is, in turn, a subsidiary of the Bank of New York Mellon Corporation.

As a full scope BIPRU investment firm regulated by the FSA, Pershing Holdings (UK) Limited is required to operate under the FSA's Basel II rules, which includes this disclosure. Senior Management have designated the following as "significant subsidiaries" in this disclosure:

- Pershing Limited ('PL')
- Pershing Securities Limited ('PSL')

Pershing Securities International Limited ('PSIL') is not considered material for these disclosures. PSIL is governed by the Irish regulator whose Pillar 3 disclosures are not due until 30th June 2009.

Pershing Europe can be taken to mean either PL/PSL or the consolidated group.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings. 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. Overview of Risk Objectives and Policies

The primary business of Pershing Europe is the provision of integrated execution, settlement, clearance and custodian services to both retail and institutional clients located largely in the UK and Ireland. Pershing Europe seeks to monitor inherent and systematic risk in the markets while diligently minimising operational, regulatory and business risk.

The overall risk appetite of Pershing Europe is deemed to be low and is based upon the assessment of the risks around the delivery of our business strategic objectives and the maintenance of a robust risk and control framework, governance structure and risk methodology.

Given the non-complex facilities we offer to high quality clients, credit and market risk is relatively low. Even so, the credit quality of clients is closely monitored. The Credit and Market Risk Committee monitors risk at all levels up to the parent holding company.

The management of operational risk is viewed as being critical to the successful and consistent service and delivery of our products to our clients. The operational risk appetite is viewed as being low, given that any risk materialising in the delivery of our products may have a significant impact in the service levels being offered by our clients.

Pershing Europe considers that the regulatory capital treatments under Pillars 1 and 2 provide an adequate cushion to the realisation of any unforeseen losses and events.

3.1.1. Credit Risk

Credit risk is the risk of financial loss to Pershing Europe in the event that a client, underlying client or market counterparty fails to meet its contractual obligations to PL or PSL. As a large proportion of Pershing Europe's business is contracted on a Model B (name give-up) basis on a Delivery versus Payment ('DvP') market with settlement finality and/or with a Central Counterparty ('CCP'), the main credit risks are between Pershing Europe and its client; settlement risk also exists between Pershing Europe and the CCP and on the counterparty or its settlement agent. The majority of Pershing Europe's credit risk arises from exposures existing between trade date and actual settlement date.

3.1.2. Market Risk

For Pershing Europe, market risk arises principally from fluctuations in the value of assets, interest or exchange rates. Pershing Europe's foreign exchange exposure is limited to residual balances resulting from non-marketable amounts within specific intra-day and overnight limits on both an individual currency and overall book basis. Volumes and ticket sizes are thus immaterial. Interest rate risk at Pershing Europe is also considered immaterial as it only arises on interest rate movements that depress the value of securities held as collateral in mitigation of exposures.

3.1.3. Operational Risk

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

The managers of the business are responsible for identifying the risks associated with key business processes and threats to meeting their overall business objectives, assessing the quality of controls in place to mitigate and manage risk, and assigning accountability for the operation of those controls.

3.1.4. Regulatory Risk

Regulatory risk covers the risk relating to 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).

As a subsidiary of BNYM, Pershing Europe is subject to a number of regulatory policies and benefits from corporate wide training and monitoring of compliance and ethical matters.

3.1.5. Other Risks

Change Management: The “change function” must assure the strategic alignment of change focused on ensuring the linkage of business and IT plans. In addition, resourcing management must optimise the use of critical IT resources (people and technology) to meet the business plan and manage risk.

Changes to business applications, the introduction of new business solutions and major changes to business processes are managed within a change framework that is controlled by the Project Management Office (‘PMO’). Many such changes are effected by the development of software by the Application Development team.

Liquidity risk represents the risk that Pershing Europe either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

Pershing Europe has deposit lines with a number of banks which are utilised and monitored on a daily basis by the Treasury department, weekly by the Credit and Market Risk Committee and reported on a monthly basis to the Executive Committee and BNYM.

3.2. Organisational Risk Structure

The Operational Risk Management (‘ORM’) department within Pershing Europe champions the operational risk management framework and policies and is an enabler to support effective operational risk management within the business. In addition, ORM ensures the continued development of all risk management practices and methodologies necessary to embed a risk aware culture with the firm. The Operational Risk Committee provides Senior Management oversight of the functioning of the Pershing Europe operational risk framework.

The Credit and Market Risk Management department within Pershing Europe is responsible for assessing the credit worthiness of new or existing clients, the periodic review and approval of existing clients and the day to day monitoring and controlling of any credit exposures incurred. The Credit and Market Risk Committee meets on a weekly basis to consider and approve new clients and review any outstanding exposure and other credit and market risk matters and issues.

3.3. Governance and Policies

Policies and procedures are in place to govern and manage the business, which are common to all BNYM entities. Suitable policies and procedures have been adopted by Pershing Europe in order

to ensure an appropriate level of risk management is directed at the relevant element of the business.

The Pershing Europe Board is the senior strategic and decision making body and it meets quarterly. The Board has delegated day to day responsibility to the Pershing Europe Executive Committee ('Executive Committee'). The Executive Committee has further delegated ongoing oversight of risk management to the Risk Committees (Operational and Credit & Market).

The Board consists of both Executive and Non-Executive members. Non-Executive members are employees of Pershing Group LLC and BNYM. The Pershing Europe Board is responsible for the ongoing success and development of the Pershing Europe business.

To provide adequate, dual oversight for Europe, Middle East and Africa (EMEA), BNYM has integrated an EMEA Managing Committee into the governance structure. This committee consists of senior managers across the businesses and shared services within EMEA. One of its responsibilities is to monitor significant governance, regulatory, audit and risk issues to ensure that they are brought to an appropriate conclusion.

4. Capital Resources

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

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

Resources (unaudited) All figures in £000's	Notes	Pershing Europe	Significant subsidiaries	
			PSL	PL
Tier 1 capital				
Called up share capital		191,136	13,390	18,092
Share premium account				24,243
Retained earnings and other reserves		-13,774	7,891	-13,193
Unaudited net profits	1			
	2	177,362	21,281	29,142
<i>Other Tier 1 capital</i>				
Perpetual non-cumulative preference shares				
Minority interests				
		177,362	21,281	29,142
Deductions from Tier 1 capital				
Investment in own shares				
Intangible assets		-130,039		
Total Tier 1 capital after deductions		47,323	21,281	29,142
Tier 2 capital				
Dated subordinated debt	3	12,000		
Deductions from Tier 2 capital				
Other Tier 2 deductions (material holdings)				-14,087
Other Tier 2 deductions (amortisation of subordinated term debt)		-9,010		
Total Tier 2 capital after deductions		2,990	0	-14,087
Tier 3 capital		12,487	12,475	800
Total capital resources after deductions		62,800	33,756	15,855

Notes:

1. Unaudited profits are not reported to the FSA as part of Tier 1 capital. As of the date of this report, 2008 profits have not been audited and are therefore excluded from capital.
2. Information about capital terms and conditions is set out in the Companies Annual Report and Accounts 2008. The subordinated debt was repaid on 26th February 2009.

5. Capital Requirements and Adequacy

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

For Pershing Europe, 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 and likelihood* methodology) and approved by the relevant senior managers after taking into account the mitigating controls and rationale for direction of risk, in light of the risk appetite set by the Board.

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

Exposure class (unaudited) All figures in £000's	Pershing Europe	Significant subsidiaries	
		PSL	PL
Credit risk – standardised approach			
Institutions	4,213	3,978	380
Corporates	1,309	1,418	0
Retail	10	10	
Past due items	16	16	
Other Items	1,065	149	542
Total credit risk	6,613	5,570	923
Total operational risk – standardised approach			
	9,202	7,453	1,079
Market risk – trading book risk not subject to models			
Foreign currency position risk	1,914	942	869
Total market risk	1,914	942	869
Total capital requirement	17,729	13,965	2,871
Total capital surplus	45,071	19,791	12,984

5.1. Retail Exposures

Pershing Europe does not currently have any material retail exposures.

5.2. Equity Exposures

Pershing Europe does not currently have any material equity exposures.

5.3. Counterparty Credit Risk

Pershing Europe seeks to minimise market counterparty risk by only allowing clients to trade with approved counterparties that have been reviewed by Pershing Europe. Counterparty credit risk arises mainly in the Model B settlement business in which Pershing Europe interposes itself between a client and a market counterparty as principal to a transaction or series of transactions.

In the event that a client fails to deliver securities, Pershing Europe is required to honour the failed trade, and in the event of client default may be required to settle the trade by closing out in the open market. Pershing Europe also incurs credit risk in such situations, although in some OTC markets this is limited to the impact of adverse price movements on failed trades in the event that Pershing Europe's client defaults and a market counterparty has to settle the trade elsewhere. Although Pershing Europe regularly reviews credit exposure to clients, underlying clients and market counterparties to address credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee.

5.3.1. Counterparty Credit Risk - Internal Capital and Limits

The settlement risk on a DvP market (such as SETS using CREST or Euroclear) with settlement finality means that there is little or no market-side counterparty risk given that transactions will either settle fully (both cash and assets) or they will not settle at all. If Pershing Europe's counterparty defaults, settlement may be forced through under Exchange rules, for example, or ensured by settlement finality rules. Where there is a CCP this risk is further reduced by the fact that the CCP should always deliver as buyer to the seller and seller to the buyer.

General Clearing Membership ('GCM') services are made available to Model A clients directly and to Model B clients indirectly as Pershing Europe entities may be both Non Clearing Members ('NCM') and GCM. Pershing Limited ('PL'), which is a GCM of the London Clearing House ('LCH'), carries out Pershing Europe's LCH Equity Clear clearing services business.

Pershing Europe has credit exposure as GCM as it (a) assumes obligations to deliver stock or cash to the CCP and (b) is reliant upon the CCP to deliver stock or cash to it. In respect of (a), Pershing Europe requires control over, or receives delivery from, its NCM client or underlying client of cash or stock and therefore has credit exposure to its NCM client or underlying client. In respect of (b) PSL has control of the assets.

5.3.2. Collateral and Credit Reserves

Credit Risk can be mitigated by four methods:

- Collateral and deposits
- Netting (includes set off)
- Guarantees, Indemnities and other contractual mechanisms
- Credit Derivatives (not currently used by Pershing Europe)

Given the nature of Pershing Europe's business, the principal mitigation methods that are pertinent are: (a) collateral which, in the case of standard Model B trades, can take several forms; and (b) contractual recourse to the client in respect of the debts or default of underlying clients.

5.3.3. Wrong-way Risk

Pershing Europe does not accept wrong-way risk collateral.

5.3.4. Downgrades in Rating Assessments

Senior risk managers review these rating changes regularly and consider the liquidity impacts of downgrade scenarios on counterparties.

6. Credit Risk and Dilution Risk

The following disclosures are about Pershing Europe's credit risk management objectives and policies and specifically:

- The strategies and processes to manage credit risk
- The structure and organisation of the credit risk management function
- The scope and nature of credit risk reporting and measurement systems

The policies for hedging and mitigating credit risk plus the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants can be found in section 11.

6.1. Credit Risk Management Strategy and Processes

Credit risk is the risk of financial loss to Pershing Europe in the event that a client, underlying client or market counterparty fails to meet its contractual obligations to Pershing Europe. As a large proportion of Pershing Europe's business is contracted on a Model B (name give-up) basis on a DvP market with settlement finality and/or with a CCP, the main credit risks are between Pershing Europe and its client. Settlement risk exists between Pershing Europe and the CCP and on the counterparty or its settlement agent.

The principal benefits of CCPs are that:

- (a) They standardise (and significantly reduce) counterparty risk on settlement (parties see their risk on the market side as being on the CCP)
- (b) They support, through clearing, post trade efficiencies eg in the form of netting
- (c) They provide post trade anonymity in respect of trades on relevant markets
- (d) They provide a central means of risk management (eg through margin calculations and calls and through the operation of rules, including rules which specifically vary insolvency and other general laws)

Benefits (a) and (d) are reflected in Pershing Europe's assessment of its risk.

6.1.1 Managing Credit Risk

Pershing Europe manages credit risk exposure by establishing various limits for its clients, as follows:

- Trading limit: normally a function of the client's adjusted Tangible Net Worth ('TNW')
- Total net debt limit: normally a function of the client's TNW
- Markets in which the client can trade
- Financial instruments in which the client can trade
- Clients that are subject to special conditions
- Type of business to be conducted through Pershing Europe

6.2 Scope and Nature of Risk Reporting Systems

All of Pershing Europe's activities are included in Basel II capital reporting (credit and market risk standardised approach). Risk matters are reported through and at the following levels:

- Daily credit & market risk exposure reports
- Weekly Credit & Market Risk Committee review
- Monthly summary to the Executive Committee of exposures and matters arising
- Quarterly BNYM Portfolio Review Committee

6.3 Exposures

The legal structure of the Model B agreements provides Pershing Europe with the right to set-off any indebtedness of underlying clients against any credit balance in the name of the same underlying client. Pershing Europe also has recourse to investments and cash as collateral and indemnities from clients in respect of any underlying clients. Consequently there is no single point of failure that could lead to a major credit loss. In order for Pershing Europe to suffer a credit related loss several adverse events would have to occur simultaneously.

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') ie 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 CRM factors (eg financial collateral and 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 Generally Accepted Accounting Practice ('GAAP') for balance sheet carrying values. Credit exposure is computed under the standardised approach.

The following credit risk tables (unaudited) (i-iv) relate to Pershing Europe.

(1) Standardised gross exposure (exposure at default ('EAD') pre CRM)

Standardised exposure classes All figures in £000's	Group exposure at default pre CRM	Group average exposure at default pre CRM
Central governments & central banks	22	20
Institutions	261,070	255,170
Corporates	7,735	10,751
Retail	12,428	10,535
Past due items	1,387	2,456
Total	282,642	278,932

Average exposure is based on a 12 month average.

Standardised exposure classes are defined by FSA in BIPRU 3 and reflect the Basel II RWA calculation applied.

(2) Standardised gross exposure (EAD pre CRM) by geographic area

Standardised exposure classes All figures in £000's	UK	Europe, Middle East & Africa	Group total
Central governments & central banks		22	22
Institutions	218,352	42,718	261,070
Corporates	4,057	3,678	7,735
Retail	11,453	975	12,428
Past due items	1,089	298	1,387
Total	234,951	47,691	282,642

Geographic allocation is based on the domicile of the obligor.

(3) Standardised gross exposure (EAD pre CRM) by industry sector

Industry sector All figures in £000's	Central gov'ts & central banks	Institutions	Corporates	Retail	Past due items	Group total
Banks and other financial	22	261,059	7,735	11,795	1,387	281,998
Other individual loans/advances		11		633		644
Total	22	261,070	7,735	12,428	1,387	282,642

All exposures are classified as banks and other financial except collateralised loans to individuals.

(4) Standardised gross exposure (EAD pre CRM) by residual maturity

Standardised exposure classes All figures in £000's	On demand	Up to 1 year	Group total
Central governments & central banks		22	22
Institutions	114,694	146,376	261,070
Corporates		7,735	7,735
Retail		12,428	12,428
Past due items		1,387	1,387
Total	114,694	167,948	282,642

Exposures are allocated to maturity bands based on residual contractual maturity.

6.4 Past due Exposures and Impaired Assets

Past due exposures are as defined in FSA BIPRU 3.4.95 ie past due for more than 90 days. Pershing Europe has no impaired assets.

(1) Impaired, past due exposures and provisions by industry sector

Standardised exposure classes Figures in £000's	Impaired assets	Past due assets > 90 days (not impaired)	Individual & collective provisions	Charged to income statement in the year ended 31 Dec 2008
Central governments & central banks	0	0	149	0
Institutions	0	1,387	1,091	0
Total	0	1,387	1,240	0

A credit exposure is past due when its contractual repayment is overdue by 90 days or more (risk definition differs from accounting).

(2) Impaired, past due exposures and provisions by geographic area

Industry sector All figures in £000's	Impaired assets	Past due assets > 90 days (not impaired)	Individual & collective provisions	Charged to income statement in the year ended 31 Dec 2008
UK	0	1,089	1,065	0
Europe, Middle East & Africa	0	298	26	0
North America	0		149	0
Total	0	1,387	1,240	0

Table is presented on a UK GAAP accounting basis which is consistent with the approach agreed by the UK banking industry.

Geographic segmentation is based on the country of the obligor, consistent with Financial accounting disclosure.

(3) Movement in allowances for impaired and past due exposures & provisions

All figures in £000's	Individual & collective provisions	Group total
Opening balance	1,008	1,008
Amounts written off	1,366	1,366
Charged to income statement in this period	-1,134	-1,134
Closing balance	1,240	1,240

Table is presented on a UK GAAP accounting basis which is consistent with the approach agreed by the UK banking industry.

There were no cash recoveries during the year associated with amounts previously written off.

7. Standardised Risk Weighting

Credit exposure is computed under the standardised approach. Pershing Europe 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, Moody's and Standard and Poor's are all recognised by the FSA as eligible external credit assessment institutions (ECAI) for the purpose of calculating credit risk requirements under the standardised approach.

All ECAI counterparty ratings are subject to validation or amendment by the Credit Risk department.

The following table aligns exposure classes with ECAIs used.

Standardised FSA exposure classes	ECAI	ECAI	ECAI
Central governments & Central banks	Standard & Poor's	Moody's	Fitch
Institutions	Standard & Poor's	Moody's	Fitch
Corporates	Standard & Poor's	Moody's	Fitch
Retail	Standard & Poor's	Moody's	Fitch

All ECAI ratings are mapped to a credit quality steps as defined by the FSA in BIPRU as shown below:

Credit Quality Step (CQS)	Fitch	Moody's	S&P
CQS 1	AAA to AA-	Aaa to Aa3	AAA to AA-
CQS 2	A+ to A-	A1 to A3	A+ to A-
CQS 3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
CQS 4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
CQS 5	B+ to B-	B1 to B3	B+ to B-
CQS 6	CCC+ and below	Caa1 and below	CCC+ and below

The following table summarises the standardised portfolio EAD values by exposure class both pre and post CRM and the relevant CQS.

Standardised gross exposure by credit quality step

Standardised exposure classes All figures in £000's	Credit quality step (CQS)	Risk weight	EAD pre CRM	EAD after CRM
Central governments & central banks	1	0%	22	0
Institutions	1	20%	261,070	120,933
Corporates	1	20%	5,545	5,545
Corporates	3	100%	2,190	2,190
Retail	3	100%	12,428	12,428
Past due items			1,387	
Total Exposures			282,642	141,096

EAD after CRM includes a deduction of £141 million for credit risk mitigation.

8. Operational Risk

Pershing Europe has a robust management oversight infrastructure, which confirms that policies and procedures are regularly reviewed and updated to reflect the development of the business and changes in industry best practice. Nonetheless, some reliance is placed on manual controls and processes and the skills/capabilities of a small number of employees which can give rise to operational risks. Augmenting this are shared service functions such as Compliance, Internal Audit, IT Security and Risk Management of parent companies.

For the purposes of calculating a Pillar 1 operational risk capital charge under the Basel II standardised approach, Senior Management have determined that Pershing Europe business activities fall under either the Agency Services or Retail Brokerage Basel business lines. For the purposes of this calculation, the average 3-year income streams for these activities have been weighted at 15% and 12% respectively.

9. Interest Rate Risk in the Non-Trading Book

Pershing Europe's non-trading book activities only include Firm Cash deposits with clearing organisations and general overnight bank deposits. As these cash deposits are held in index linked interest bearing accounts, there is interest rate risk present. Pershing Europe does not consider earnings relating to client free money deposits to be part of the non-trading book.

Deposits with clearing organisations usually relate to margin calls for all securities settlement and clearing services for Pershing Europe clients. These margin calls are covered by Firm Cash and overnight borrowing using committed/uncommitted lines. In the event that credit lines are used to cover margin calls, the expense to Pershing Europe is the spread between the credit interest and the cost of funds. The pricing model adopted by Pershing Europe covers this net expense by charging its clients a fixed margin on the principal amount of the margin call. Therefore a 200bps rate movement in either direction will have little or no impact to net revenue as the credit interest paid and the cost of funds are both index linked and would move in parallel in the event of a rate shock.

Firm cash balances are held in current accounts with approved banks where the accounts earn a rate of interest indexed to benchmark UK rates. Senior Management consider that interest revenue on Firm cash balances is not material to earnings, consequently a 200bps rate movement would not have a material impact to overall earnings.

10. Non-Trading Book Exposures in Equities

Pershing Europe has non-trading book Equity exposures to the value of £746,000 in respect of investments in clearing house organisations.

These are defined under a UK GAAP accounting basis (as opposed to a regulatory definition of equity) which is consistent with the approach agreed by the UK banking industry.

The Directors consider the market value of these investment securities (which are all unlisted) to be at least their balance sheet carrying value.

11. Credit Risk Mitigation

Credit Risk can be mitigated by collateral and deposits, netting, guarantees, indemnities and other contractual mechanisms, and credit derivatives (not currently used by Pershing Europe). Given the nature of Pershing Europe's business, the principal mitigation methods that are pertinent are i)

collateral and ii) contractual recourse to the client in respect of the debts or default of underlying clients.

The major mitigants of Pershing Europe's credit risk assume that in the event of a failed trade there is sufficient collateral, security deposit and retained commissions to meet mark-to-market exposure and that the residual exposure is not greater than the client's ability to 'make good' its obligation to Pershing Europe. In order to mitigate this risk there is a weekly review by Credit & Market Risk Committee of all debts greater than 30 days past due, against which Pershing Europe withholds commission payable to the client. The total amount of eligible financial collateral used in the Pillar 1 calculation to mitigate exposures is circa £140 million and specific guarantees of £900,000. These are all classified against institutions.

Pershing Europe has no other eligible financial collateral, apart from the implicit guarantees from its institutional broker client's for Pershing Europe's exposure to their underlying clients. This results in an improved risk weighting of these exposures giving rise to reduced capital charges for such exposures.

12. Disclosures not Relevant

Securitisation

Pershing Europe does not securitise its assets; thus this risk is not relevant.

Insurance for the purpose of Mitigating Operational Risk

Pershing Europe does not use the Advanced Measurement Approach ('AMA') for the calculation of its operational risk. This disclosure is therefore not relevant.