2013 PILLAR 3 DISCLOSURE

BNY MELLON CAPITAL MARKETS EMEA LIMITED

BNY MELLON

Pillar 3 disclosure

Pillar 3 disclosures are published in accordance with the requirements of the Prudential Regulation Authority (PRA)/Financial Conduct Authority ('FCA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3).

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 (BNYMC), there is currently no comparable disclosure provided on a consolidated basis by BNY Mellon Capital Markets EMEA Limited's parent undertaking. As such, these disclosures have been prepared for BNY Mellon Capital Markets EMEA Limited (or CaML).

These disclosures have been approved by BNY Mellon Capital Markets EMEA Limited's Board of Directors who have verified that they are consistent with formal policies adopted regarding production and validation.

Information in this report has been prepared solely to meet Pillar 3 disclosure requirements of the entity noted, and to provide certain specified information about capital and other risks and details about the management of those risks, and for no other purpose. These disclosures do not constitute any form of financial statement on the business nor do they constitute any form of contemporary or forward looking record or opinion about the business.

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content e.g. disclosure about risk management practices and capital resources at year end.

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

Disclosure will be made annually based on calendar year end and will be published as soon as possible after publication of the consolidated annual accounts. CaML 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.

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" on CaML's website.

The Board may omit one or more disclosures if the information provided is not regarded as material. The criterion for materiality used in these disclosures is that CaML 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 may omit one or more disclosures if the information provided is regarded as confidential. In this circumstance, the Board 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.

CaML 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.

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

Table of Contents

1 Introduction

The Bank of New York Mellon (BNY Mellon) is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As at December 31 2013, BNY Mellon had $27.6 trillion in assets under custody and/or administration, and $1.58 trillion in assets under management.

CaML is wholly owned by The Bank of New York Mellon through its subsidiary, BNY International Financing Corporation. CaML operates as a broker-dealer operating under a ‘restricted’ Full Scope licence from the FCA (€730k Full Scope Firm). As part of this licence, CaML will not take positions (proprietary trading) or ‘make markets’, it primarily targets cross-selling opportunities within the BNY Mellon Group (primarily customers of Asset Servicing, Alternative Investment Services and Corporate Trust division) and other third party clients.

These 2013 Basel II Pillar 3 disclosures relate to BNY Mellon Capital Markets EMEA Limited and are published in accordance with the requirements of the Prudential Regulation Authority (PRA)/Financial Conduct Authority (‘FCA’) Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3). Pillar 3 disclosures are made in respect of BNY Mellon Capital Markets EMEA Limited. CaML uses the Basel II Standardised Approach for calculating credit, market and operational risk.

BNY Mellon Capital Markets EMEA Limited was authorised by the Financial Services Authority (now the Financial Conduct Authority) on 16 October 2012 and began trading in March 2013. Therefore no financial or risk information has been provided for the year ended 31 December 2012.

This disclosure is for BNY Mellon Capital Markets EMEA Limited as at 31 December, 2013 and was approved for publication by BNY Mellon Capital Markets EMEA Limited’s Board of Directors (hereafter the ‘Board’) on 23 June 2014.

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 European Union (EU) through the Capital Requirements Directive (CRD). 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, market and operational risk capital resources requirements.
- **Pillar 2** requires firms and supervisors to take a view on whether a firm needs to hold additional capital against risks not adequately covered in Pillar 1 and to take action accordingly.
- **Pillar 3** complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to gauge the capital adequacy of individual banks.

1.2 Events occurring after balance sheet date

On 23rd December 2013, a Notification for a Change in Controller was submitted to the FCA, seeking authorisation to proceed with a group reorganisation under which QSR Management Ltd would become a 100% owned subsidiary of CaML by means of a share for share exchange. CaML is considered a growth company while QSR Management Ltd is a mature business.

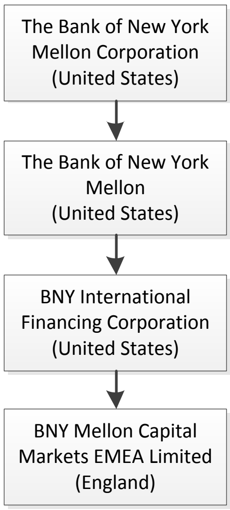
The rationale for the reorganisation is that the combined capital of the two entities will support the future development of CaML. The change in ownership was ratified during February 2014 and filings were made with Companies House to formally register the change in ownership on 28 February 2014. Both QSR Management Ltd and CaML remain under the common control of BNY Mellon International Financing Corporation following the reorganisation.

2 Scope and Application of Pillar 3 Requirements

CaML is wholly owned by The Bank of New York Mellon through its subsidiary, BNY International Financing Corporation.

The corporate structure of CaML illustrated in Figure 1.

Figure 1: CaML's corporate structure



3 Risk Management Objectives and Policies

3.1 Risk Management Framework

CaML's approach to risk management is to ensure that all material risks are defined, understood and effectively managed according to well-designed policies and controls.

CaML maintains a Risk Management Framework that promotes a risk-aware and transparent culture and the identification, assessment, mitigation, measurement and escalation of risk and control issues.

CaML's risk appetite is aligned to the risk appetite of BNYMC which is to maintain a balance sheet that remains strong across market cycles to meet the expectations of its major stakeholders, including clients, shareholders, employees and regulators.

The Board adopts a prudent appetite to all elements of risk to which CaML is exposed. CaML uses a variety of metrics to measure and monitor its risk taking activities relative to its risk appetite. Articulating risk appetite through risk metrics aids decision-making relating to pursuing new products and enterprises, exiting businesses, and aligning resources to maximise potential gains given acceptable levels of risk.

3.2 Scope and Nature of Risk Reporting Systems

CaML's risk profile is recorded through a number of risk assessment tools. The Operational Risk Management team prepares and updates management information reporting which is reviewed and approved by the CaML Risk Operating Committee (OpComm) monthly and the Board quarterly.

The BNY Mellon 'Risk Universe' defines the risk types (current or future) applicable to the business. Risk types are organised by categories according to industry standards to support the efficient classification and reporting of risks and risk events as they materialise.

3.2.1 *Risk and Control Self-Assessment*

The Risk and Control Self-Assessment (RCSA) is used by the business to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls. RCSA control gaps and action plans form part of the standard risk management report to the OpComm, providing oversight of risk to the business.

3.2.2 *Key Risk Indicators*

Key Risk Indicators (KRIs) are used by business lines to evaluate control effectiveness and residual risk within a business process. Material risks are monitored by appropriate KRIs. The business lines use the corporate KRI process to monitor changes in the probability of the high risks materialising, and to ensure that appropriate actions are taken. KRIs are reported at a minimum on a monthly basis.

3.2.3 *Operational Risk Events*

All operational losses and unexpected fortuitous gains are recorded in accordance with corporate policy using the Risk Management Platform, and verified through reconciliation to the Finance general ledger for completeness. Risk events are categorised and reported to the OpComm monthly.

3.2.4 *High Level Assessment*

A High Level Assessment (HLA) is carried out by business lines to assess the quality of controls in place to mitigate residual risk. Residual risk is assessed as 'High,' 'Moderate to High,' 'Moderate,' 'Moderate to Low' and 'Low' with direction anticipated.

3.2.5 *Top Risks*

Top Risks are identified according to the assessment of the inherent risk, quality of controls in place to mitigate risk and likelihood to identify whether there is any residual risk. Top Risks are rated as 'High,' 'Moderate to High,' 'Moderate,' 'Moderate to Low' and 'Low' with direction anticipated. A Top Risk assessment is reported to the Stress Testing and Economic Capital Committee (STEC) and board meetings. Top Risks are also consolidated into the BNY Mellon Top Risk Reporting process for reporting to regional risk committees.

3.2.6 *Stress Testing*

Stress testing scenarios are designed using an appropriate range of adverse circumstances of varying nature, severity and duration relevant to the CaML risk profile. Stress testing is also undertaken on an ad hoc basis. Sources of risk information used to assist scenario development include Top Risk Reporting, financial sensitivity analysis, outputs from the risk assessment tools, operational risk trends, macro-economic data, financial news, client management information or general business statistics.

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by OpComm and the Board.

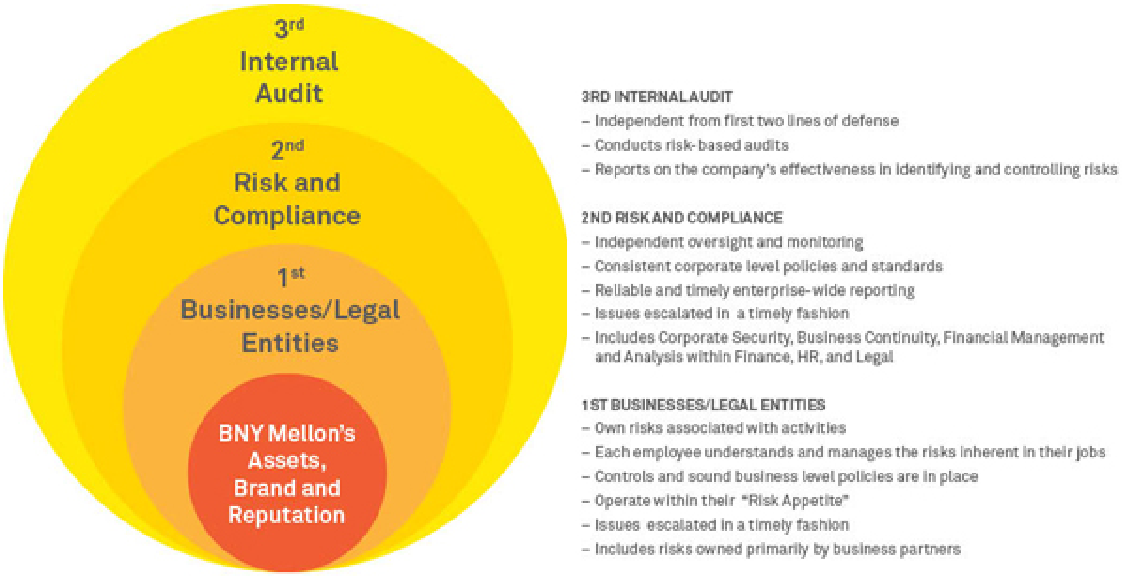
The conclusion of the stress testing process is a statement of the future risk(s) the business faces, control improvements to mitigate the impact should the risk arise and where appropriate, a recommendation for the capital held against each risk type.

3.3 Risk Management Governance

CaML has established risk and stress testing governance to periodically review, challenge and approve risk and capital management processes. CaML's approach to risk management is to ensure that all material risks in each business line are defined, understood, and effectively managed using well-designed policies and controls.

CaML's Risk Management framework helps ensure the latter. Risk Management complies with corporate policies on Risk Appetite and Managing Risk culture centred around the Three Lines of Defence (figure 2). Within the EMEA region the EMEA Chief Risk Officer (CRO) oversees the management of risk and is supported in this role by Senior Risk Managers operating at business line and/or functional level.

Figure 2: Three Lines of Defence



CaML fully complies with the corporate culture of risk management as Risk is managed at:

- **First line of defence**: Operating Committee, the Business Acceptance Committee, the Executive Committee and the Board of Directors
- **Second line of defence**: Chief Risk Officer, Chief Compliance Officer, the Risk Management Committee (which has representation from Finance, Human Resources and Legal)
- **Third line of defence**: Internal Audit involved in the Risk Management Committee, and audits of the ICAAP Process

Risk and Compliance activities undertaken by CaML are executed in accordance with internal policies and all relevant regulations. At a corporate level, the BNY Mellon Basel Executive Oversight Committee provides senior management oversight of company-wide Basel processes.

The Board is responsible for both the management and the oversight of risks together with the quality and effectiveness of internal controls but has delegated risk management oversight to the Operating Committee. The Board is responsible for reviewing, challenging and approving all risk management processes including risk identification and assessment, stress testing and capital adequacy. The various control functions provide further support for the management of risk within the business.

3.3.1 Business Unit Risk

Business Acceptance Committees are responsible for aligning new business to appropriate business lines and subsidiaries, assessing and approving the associated risks.

3.3.2 EMEA Risk Management Framework

As a global organisation BNYMC has established governance structures to monitor and assess risks on an enterprise-wide basis. BNY Mellon is organised on a regional basis, where CaML is included within the Europe, Middle East and Africa (EMEA) region. Oversight for EMEA is executed primarily through the following committees:

- EMEA Executive Committee
- EMEA Senior Risk Management Committee
- EMEA Investment Services Risk and Compliance Committee
- EMEA Asset Servicing Executive Committee
- EMEA Asset and Liability Committee
- EMEA AML Oversight Committee
- EMEA Controls Committee
- EMEA Stress Testing Oversight Committee

3.4 Risk appetite

BNY Mellon defines risk appetite as the maximum level of risk it is willing to accept while maximising the interests of shareholders and other corporate stakeholders including regulators. Risk appetite is linked to the strategic direction set by senior management and is approved by the BNYMC Board of Directors. Risk appetite considers the balance between risk and reward aligning the strategic goals and the overall risk.

The risk appetite is articulated through a comprehensive set of metrics. In particular, capital metrics represent one of the core elements of BNYMC's risk appetite. These metrics are tracked against the risk appetite on an ongoing basis.

The Risk Appetite Statement of CaML is aligned with the BNY Mellon Risk Appetite. The Board of Directors have established a clear set of tolerances for its business risks and has articulated its risk appetite through a series of statements and metrics (as detailed in the following sections of this document). All changes including additions or deletions to the statements, metrics and/or tolerances must be approved by the CaML Board. On an annual basis, the Board is responsible for reviewing and approving CaML's risk appetite statement.

3.5 Credit risk

Credit risk is the risk of default from counterparties or clients for deposits, loans, commitments, securities and other assets where the realisation of the value of the asset is dependent on its ability to perform. Credit risk could also arise from off-balance sheet items including counterparty credit risk and securities lending indemnifications and letters of credit identifying exposures (balance sheet and non-balance sheet).

Credit risk for CaML is primarily generated on its bank placements; it does not undertake any third-party lending or offer credit facilities. Credit risk management of banks and corporates is undertaken by the BNY Mellon Group Credit Risk team and a Credit Risk Manager supports CaML.

3.5.1 *Capital resource requirement*

CaML calculates Pillar 1 credit risk capital resource requirement using the Standardised Approach, as defined in BIPRU.

3.5.2 *Credit risk exposure*

Credit exposure is computed under the Standardised approach. This method for calculating credit risk capital requirement uses supervisory risk weights.

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

The following credit risk exposure tables (1) to (4) summarise the credit exposure for CaML.

i) Standardised gross Credit exposure (EAD pre CRM)

The following table summarises the standardised gross credit exposure by class as at 31 December 2013.

Table 1: Standardised gross credit exposure by exposure class

Standardised gross credit exposure by exposure class	**Exposure at Default (EAD) pre Credit Risk Mitigation (CRM)**		**Average EAD pre CRM**		**Standardised Credit Risk Capital Requirement**	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Central Governments and Central Banks	-	NA	-	NA	-	NA
Institutions	9,998	NA	-	NA	160	NA
Corporates	2,124	NA	-	NA	170	NA
Short term claims on Institutions and Corporates	-	NA	-	NA	-	NA
Collective Investment Undertakings	-	NA	-	NA	-	NA
Other	2,274	NA	-	NA	20	NA
Total	**14,396**	**NA**	**-**	**NA**	**350**	**NA**

Note: CaML was inactive as at 31 December 2012.

The following table summarises the standardised gross credit exposure by credit quality step as at 31 December 2013.

Table 2: Standardised credit exposures by Credit Quality Step

Standardised Pre-mitigated Credit Exposures by Credit Quality Step [1]	**Institutions: Maturity <= 3m**		**Corporates**		**Other**		**Total**	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
1	-	NA	-	NA	-	NA	-	NA
2	9,998	NA	-	NA	-	NA	9,998	NA
3	-	NA	-	NA	-	NA	-	NA
4	-	NA	2,124	NA	2,274	NA	4,399	NA
5	-	NA	-	NA	-	NA	-	NA
6	-	NA	-	NA	-	NA	-	NA
Total	**9,998**	**NA**	**2,124**	**NA**	**2,274**	**NA**	**14,396**	**NA**

Note: CaML was inactive as at 31 December 2012.

[1]Standardised pre and post credit exposure by Credit Quality Step as per BIPRU 11.5.10.5

The following table sets out the standardised gross credit exposure by geographic area as at 31 December 2013.

Table 3: Standardised gross credit exposure by geographic area

Standardised exposure classes (£000s)	Europe 2013	Europe 2012	Americas 2013	Americas 2012	Total 2013	Total 2012
Central Governments and Central Banks	-	NA	-	-	-	NA
Institutions	9,998	NA	-	-	9,998	NA
Corporates	2,002	NA	122	-	2,124	NA
Short term claims on Institutions and Corporates	-	NA	-	-	-	NA
Collective Investment Undertakings	-	NA	-	-	-	NA
Other	2,274	NA	-	-	2,274	NA
Total	**14,274**	NA	**122**	-	**14,396**	NA

Note: CaML was inactive as at 31 December 2012.

The following table summarises the standardised gross credit exposure by residual maturity as at 31 December 2013.

Table 4: Standardised gross credit exposure by residual maturity

Standardised gross credit exposure by residual maturity (£000s)	Less than 3 months 2013	Less than 3 months 2012	3 months to 1 year 2013	3 months to 1 year 2012	Over 1 year or undefined 2013	Over 1 year or undefined 2012	Total 2013	Total 2012
Central Governments and Central Banks	-	NA	-	NA	-	NA	0	NA
Institutions	9,998	NA	-	NA	-	NA	9,998	NA
Corporates	2,124	NA	-	NA	-	NA	2,124	NA
Short term claims on Institutions and Corporates	-	NA	-	NA	-	NA	0	NA
Collective Investment Undertakings	-	NA	-	NA	-	NA	0	NA
Other	2,274	NA	-	NA	-	NA	2,274	NA
Total	**14,396**	NA	**-**	**NA**	**-**	NA	**14,396**	NA

Note: CaML was inactive as at 31 December 2012.

3.6 Counterparty credit risk

The main source of counterparty credit risk for CaML arises from its business as a matched principle broker. Risk arises to CaML upon a client default, or a lack of client performance under contract creating counterparty credit risk. This is known as pre-settlement risk and is the potential mark to market variation in the stock price that now would need to be resold or repurchased elsewhere in the market. CaML operates all business on a DVP (delivery vs payment) basis. Therefore, settlement risk is extremely limited and approved under special circumstances as a ‘free delivery’ of stock or cash and only occurs in the rare occasion that settlement activity is not DVP.

3.7 Market risk

Market risk is the risk to a firm’s financial condition arising as a result of adverse movements in the markets, such as foreign currency exchange rates, interest rates, equity and commodity prices.

The market risk of CaML is monitored by a dedicated Market Risk function where maximum daily trading limits and settlement periods are set for a single counterparty trading in each security type. CaML has defined its appetite for market risk and monitors this through risk appetite metrics and key risk indicators which are reported to the Operating Committee each month.

CaML does not carry active open intra-day or overnight trading book positions (no inventory or market making). It will trade either on an agency basis, where CaML will act on behalf of the client will go out into the open market and fill the client order at the best price or on a matched-principal basis where CaML sells (buys) a security to a client and near-simultaneously buys (sells) the security from a dealer.

CaML is exposed to foreign exchange translation risk as it receives non-GBP fee or commission income only. These FX positions are of a marginal amount and translated into GBP according to Group policies of a Group Foreign Exchange Hedging Committee in finance.

3.7.1 *Capital resource requirement*

CaML calculates the Pillar 1 market risk capital resource requirement for FX based on Standardised approach as defined in BIPRU.

3.8 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events (including legal risk but excluding strategic and reputation risk). It may arise from errors in transaction processing, breaches of internal control systems and compliance requirements, internal or external fraud, damage to physical assets, and business disruption due to systems failures, execution, delivery and process management or other events. Operational risk can also arise from potential legal or regulatory actions because of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations, these being sub-classified as compliance risk.

The level of CaML's operational risk is managed through rigorous operating policies, procedures and controls set by the Board and implemented by Risk Management.

CaML business managers are responsible for Risk Control Self Assessments ("RCSA"), 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. RCSAs are reviewed on at least an annual basis with the guidance of the Business and Risk Management. The risk management teams have an independent oversight role for this reporting.

The CaML Operating Committee is responsible for the oversight of operational risk, as delegated by the CaML Board. The Board of CaML monitors operational risk and the appropriateness of controls through the escalation processes as well as independent reporting from Senior Risk Managers. The Operational Risk Management Framework is designed to:

- Identify, monitor, and report risks;
- Define and communicate the types and amount of operational risk to take;
- Communicate to the appropriate management level, the type and amount of risk taken;
- Maintain a risk management organisation that is independent of risk-taking activities;
- Promote a strong risk management culture that encourages a focus on risk-adjusted performance;
- Report and escalate operational risk events in line with corporate policy.

3.8.1 *Capital resource requirement*

As a full-scope firm, CaML is required to calculate Pillar 1 Operational Risk requirement using the standardised approach (TSA) and therefore calculates its Pillar 1 requirements based upon the net revenues of the relevant business lines in which it is engaged. The calculation of required capital is based upon the multiplication of gross income by a predefined (percentage) factor for each relevant business line.

3.9 Liquidity risk

Liquidity Risk is the risk that CaML cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flow and collateral needs without adversely affecting daily operations or financial conditions.

Liquidity risks can arise from funding mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputational risks also can affect CaML's liquidity risk profile and are considered in the liquidity risk framework.

Intra-day Liquidity Risk is the risk that CaML cannot fund and /or settle its obligations or clients' securities servicing obligations throughout the day, primarily due to disruptions or failures.

CaML maintains 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.

3.10 Compliance risk

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

CaML has established processes and procedures to ensure compliance with applicable laws, regulations, policies, procedures and the Code of Conduct. Emerging regulations and changes are monitored by the Compliance and Risk functions. Impact assessments are performed and implementation plans established where necessary to ensure compliance.

The CaML Compliance function has a dual reporting line to Global Markets Compliance and EMEA Compliance Advisory thus giving it access to support with regard to identifying and managing emerging compliance risks.

CaML has never suffered from a sanction event where the regulator has imposed a fine.

3.11 Business risk

Business risk is the risk of loss caused by unexpected changes in the macro-economic environment, client behaviour, inappropriate management actions, performance of competitors or events that impact earnings, for example, market contraction, reduced margins from competition, adverse customer selection and business concentration.

The principal business risk for CaML is within the Global Markets sector and fees are generated from commissions or general fees on trades. As business risk is difficult to assess, it has been defined as the residual risks that confront CaML, after taking all the known and quantifiable risks into consideration. A potential emerging risk that may arise through reduced variable compensation is that CaML becomes sensitive to pressure from the market to reduce variable compensation and headcount.

3.12 Outsourcing risk

Outsourcing risk is the risk that failure in respect of the provision of services by third party provider(s) which could potentially damage an entity's operations, or if contracts with any of the third party providers are terminated, that the entity may not be able to find alternative providers on a timely basis or on equivalent terms.

CaML relies on internal and external outsourcing entities within and outside of the BNYMC group to perform its core business activities on a continuing basis. To date, CaML has only outsourced critical tasks to BNYMC group entities which hold the required permissions in their jurisdiction to carry out the respective delegated tasks. Currently there are no critical tasks outsourced to third parties outside BNYMC entities.

CaML adheres to the BNYMC Outsourcing Policy which details certain minimum standards that should be adopted when considering or dealing with a service and/or activity that is outsourced to another legal entity, either within the Group or to an external provider and establishes a framework for evaluating and analysing outsourcing projects.

3.13 Concentration risk

Concentration risk is the risk of loss arising from significant interrelated asset or liability exposures, which in cases of distress associated with markets, sectors, countries, or areas of activity, may threaten the soundness of the institution.

Traditionally analysed in relation to credit activities, concentration risk arises from exposures that may arise within or across different risk types, including intra-risk concentration where exposure concentration exists within a single risk type, and inter-risk concentrations arising from interactions between different risk exposures across different risk categories connected by a common risk factor (e.g. counterparties, vendor, economic sector, geographic region, and/or financial instrument/product type).

CaML manages the following types of concentration risk:

- Credit
- Client
- Operational
- Liquidity

3.13.1 *Credit concentration risk*

Credit concentration risk results from concentration of exposures to a single counterparty, borrower or group of connected counterparties or borrowers. This includes on and off-balance sheet exposures. Credit concentration risk arises through cash placements with BNY Mellon and third-party banks. This concentration risk is mitigated through diversification of counterparties and monitoring of counterparties.

3.13.2 *Client concentration risk*

Client concentration risk exists within the business as it is in a start-up phase. This risk will be mitigated as the business signs new clients.

3.13.3 *Operational concentration risk*

Concentration risk in operations can arise from a number of operational risk factors, including external suppliers providing key products and services, external market counterparties, and the geographic concentration of operations.

CaML has a number of operational dependencies on the BNY Mellon Group, for instance intra-group outsourcing. This risk is mitigated through service level agreements (SLAs) with key dependencies and regular monitoring of performance by the Operating Committee.

3.13.4 *Liquidity concentration risk*

Liquidity concentration risk arises through cash placements with BNY Mellon and third-party banks. This concentration risk is mitigated through diversification of counterparties and monitoring in line with the liquidity policy.

3.14 Group risk

Group risk is the risk that the financial position of CaML may be adversely affected by its relationships (financial and non-financial) with other entities within BNYMC or by risks that may affect the whole of BNYMC.

CaML has group dependencies on BNY Mellon, including business leadership, dependency on certain IT systems and support services provided by central functions. In addition, CaML places substantial deposits with other entities in the BNY Mellon Group and therefore is exposed to credit risk.

This risk is mitigated through service level agreements (SLAs) with key dependencies and regular monitoring of performance by the Operating Committee.

3.15 Interest Rate Risk in Non-trading Book

Interest rate risk (IRR) is the risk associated with changes in interest rates that affect net interest income (NII) from interest-earning assets and interest-paying liabilities. For regulatory purposes, interest rate risk is monitored in the trading portfolio and non-trading book separately. IRR exposure in the non-trading book arises from on and off-balance sheet assets and liabilities, and changes with movements in domestic and foreign interest rates. The interest rate risk associated with the balance sheet of BNY Mellon Capital Markets EMEA is considered of a lower materiality as its assets are comprised of bank placements and it is funded by equity.

3.16 Legal risk

Legal risk is the risk associated with a breach of contract, law, regulation and fiduciary responsibility.

CaML reduces its legal risk through strict policies and procedures defined to ensure contractual obligations are fulfilled, and to minimise the risk of legal action; and through dedicated internal counsel and the use of external counsel.

3.17 Model risk

Model risk is defined as the error in estimation or measurement resulting from the inherent limitations in the financial models used in assessing and managing risk.

CaML uses models in its risk management framework. All models are subject to the BNY Mellon model risk management policy under the Model Risk Management Group who maintains the model inventory, and oversees model review and validation.

3.18 Pension obligation risk

Pension Obligation Risk is caused by contractual liabilities or moral obligation to a company's staff pension schemes. BNY Mellon in EMEA operates a number of defined contribution and defined benefits pension arrangements where fixed contributions are paid into separate arrangements, typically to an insurer or trusts.

3.19 Reputation risk

Reputation risk covers the risk to brand and relationships which do not arise out of any error. It can arise from all aspects of business activities, including but not limited to operational failures in business practices, legal or regulatory sanctions, joint ventures with outside firms, engagements with third-party vendors, or off-balance sheet activities.

BNYMC relies heavily on its reputation and standing in the market place to retain and attract clients. CaML identifies and assesses the impact of reputation risk through its risk management processes and using scenario analysis.

3.20 Strategic risk

Strategic risk is defined as the risk of direct or indirect loss arising from the adverse effects or the improper implementation of business decisions. Strategic risk can result from either a misalignment of business line decisions which impact the group, or failure to deliver business value through new strategic initiatives.

CaML relies on robust governance processes to monitor and/or mitigate strategic risk. CaML will maintain an integrated Enterprise Risk Management Framework to ensure that risks inherent in its business activities are identified, measured, managed and monitored and adequate business acceptance controls and mitigation exist.

3.20.1 *Country risk*

Country Risk is the risk of unfavourable evolution of operating profits and/or value of assets due to changes in the business environment resulting from political or macroeconomic factors.

3.21 Settlement risk

Settlement risk is the probability of loss arising from the failure of one counterparty to settle its side of a transaction, thus preventing other counterparties from settling their commitments. It arises usually when payments are not exchanged simultaneously.

4 Capital resources

The following table summarises the capital resources for CaML, as at 31 December 2013, CaML.

Table 5: Capital resources

As at 31 December Capital Resources (£000s)	CaML 2013	 2012
Tier 1 Capital		
Called up Share Capital	10,228	NA
Retained Earnings and other Reserves	2,308	NA
Total Tier 1 Capital	12,536	NA
Deductions from Tier 1 Capital		
Intangible Assets		
Total Tier 1 Capital after deductions	12,536	NA
Tier 2 Capital		
Lower Tier 2 Capital		
Deated subordinated debt		
Total Tier 2 Capital	-	NA
Deductions from total of tiers 1 and 2 capital		
Connected lending of a capital nature		
Total Deductions from total of tiers 1 and 2 capital	-	NA
Total Capital Resources	**12,536**	NA

Note: CaML was inactive as at 31 December 2012.

5 Capital requirements and adequacy

5.1 Capital requirements

The following table details the Pillar 1 capital requirements by exposure class for CaML as at 31 December 2013.

Table 6: Capital requirements by risk type

As at 31 December Capital Requirements and Adequacy (£000s)	CaML 2013	 2012
Credit Risk Standardised Approach		
Central Governments and Central Banks	-	NA
Institutions	160	NA
Corporates	170	NA
Short term claims on Institutions and Corporates	-	NA
Collective Investment Undertakings	-	NA
Other	20	NA
Total Credit Risk capital requirement	350	NA
Operational Risk - standardised approach	480	NA
Market Risk		
CIU Position Risk Requirement	-	NA
Foreign currency Position Risk Requirement	4	NA
Total Market Risk capital requirement	4	NA
Total Pillar 1 Capital Requirements	834	NA
Total Capital Resources	12,536	NA
Capital surplus	11,702	NA
Capital Adequacy ratio - [b] / [a]	**1503%**	**NA**

Note: CaML was inactive as at 31 December 2012

5.2 Risk weighted assets

The following table summarises the Risk Weighted Assets (RWAs) for CaML by risk type.

Table 7: Risk Weighted Assets by risk type

As at 31 December Risk Weighted Assets (RWAs) by risk type (£000s)	CaML 2013	 2012
Credit Risk	4,375	NA
Operational Risk	6,000	NA
Market Risk	50	NA
Total RWAs	**10,425**	**NA**

Note: CaML was inactive as at 31 December 2012.

6 Remuneration disclosure

6.1 Governance

The Human Resources and Compensation Committee (HRCC) of The Bank of New York Mellon Corporation (BNY Mellon) oversees BNY Mellon's enterprise-wide employee compensation and benefit policies and programs. It reviews and is responsible for other compensation plans, policies and programs in which the executive officers participate and the incentive, retirement, welfare and equity plans in which all employees participate.

The members of the HRCC are non-executive board members, delegated by BNY Mellon's Board of Directors to act on behalf of the Board on remuneration matters.

With respect to employees broadly, CaML's compensation plans are also monitored by a management-level compensation oversight committee (COC). The members of the COC are members of BNY Mellon's senior management and include the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer and the Risk Management and Compliance Chief Administrative Officer. An important responsibility of the COC is to advise the HRCC on any remuneration risk-related issues.

To ensure alignment with local regulations in BNY Mellon's EMEA (Europe, Middle-East and Africa) region, the EMEA Remuneration Governance Committee (ERGC) was set-up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses, including CaML. Remuneration policy decisions of CaML rest with the Human Resources Compensation Committee (HRCC)", which also approves the year-end compensation awards of its regulated staff members.

6.2 Aligning pay with performance

BNY Mellon's compensation philosophy is to offer a total compensation opportunity that supports our values: client focus, trust, teamwork and outperformance. We pay for performance, both at the individual and corporate level. We value individual and team contributions and reward based on how both contribute to business results. In support of this philosophy, variable compensation is regularly used as a means of recognising performance.

By implementing our compensation philosophy and principles, we align the interests of our employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value, by rewarding success and by ensuring that our incentive compensation arrangements do not encourage our employees to take unnecessary and excessive risks that threaten the value of BNY Mellon or benefit individual employees at the expense of shareholders or other stakeholders.

6.3 Remuneration components

Fixed remuneration: -
is composed of (i) salary, (ii) any additional amounts paid as a result of contractual obligations or applicable law, or as a result of market practice, and (iii) any benefits in kind which are awarded as a result of the job rather than the performance within the job.

The fixed remuneration of an employee is determined by the job performed, its level of complexity and responsibility, and the remuneration paid in the market for that type of job. It is set, for all staff, at a rate to be at all times sufficient to provide for full flexibility in the variable remuneration, including a zero variable remuneration.

Employees who have accepted to be a director of another of BNY Mellon's legal entities are not remunerated in their capacity as a director. Independent directors of BNY Mellon only receive fixed remuneration, as disclosed in our annual Proxy Statement to shareholders.

6.4 Variable compensation funding and risk adjustment

The staff of CaML are eligible to be awarded variable compensation. Such variable compensation consists of both cash and deferred components and is determined by the functional hierarchy of the business or business partner service to which the individual staff member belongs, and in accordance with the terms and conditions of the incentive compensation plan that is applicable for the business or business partner service.

The deferred component is intended to align a portion of the variable compensation award with the management of longer term business risk. The deferred compensation component is generally awarded in the form of restricted stock units.

Furthermore, BNY Mellon requires employees who receive awards to agree to clawback and/or forfeiture provisions on such awards in the event of fraud or conduct contributing to financial restatement or other irregularities.

6.5 Deferral policy and vesting criteria

The deferred component of the variable compensation award is generally delivered as restricted stock units whose value is tied to The Bank of New York Mellon Corporation, Inc.'s share price. The percentage of the variable compensation award to be deferred depends on the level of the position and the amount of the award. For regulated staff, the variable compensation portion of an award is broken out in four different parts: upfront cash, upfront equity, deferred cash and deferred equity, in order to comply with local regulations. All such deferred awards are subject to terms and conditions that provide for forfeiture or clawback in certain circumstances.

6.6 Variable remuneration of control function staff

The variable compensation awarded to control function staff (e.g. audit, legal and risk) is dependent on performance which is assessed according to the achievement of objectives specific to their functional role which is independent of the activities they oversee. This remuneration is benchmarked against the market level and funded independently of individual business line results and adjusted based on BNY Mellon's overall annual financial performance.

6.7 Quantitative Remuneration Disclosure

The tables below provide details of the aggregate remuneration of Code Staff for CaML for the year ending 31 December 2013.

The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of CaML, to reflect the full reporting period.

Table 8: Aggregate remuneration expenditure for Code Staff in 2013 by business

	BNYM CaML		
	Investment Services[3] £000s	Other[2] £000s	Total £000s
	-	3,736	3,736

1. Includes base salary and other cash allowances, plus any cash incentive and the total of any awards made in BNY Mellon shares or options, valued at the date of grant.
2. Includes all support functions and general management positions.
3. Due to data confidentiality reasons, the information for Investment Services is disclosed on an aggregate basis within the Other Services category.

Table 9: Aggregate remuneration expenditure for Code Staff in 2013 by remuneration type

	BNYM CaML		
	Senior Management[2]	Other Code Staff	Total
Number of beneficiaries	5	4	9
Fixed remuneration (£000s)[1]	1,187	803	1,990
Variable remuneration (£000s)	1,309	437	1,746

1. Fixed remuneration includes base salary and any cash allowances.

2. Senior Management is comprised of legal directors and those holding the corporate title of Executive Vice President.

7 Glossary of Terms

The following terms are used in this document:

- **ALCO:** Asset and Liability Committee
- **AMA Scenarios:** Advanced Measurement Approach under the Basel II Operational risk
- **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'.
- **BNY Mellon:** The Bank of New York Mellon
- **BNYMC:** The Bank of New York Mellon Corporation
- **CCR:** Counterparty Credit Risk
- **CRD:** Capital Requirements Directive
- **Compensation Oversight Committee (COC):** COC is responsible for monitoring incentive plan funding and reviewing and approving incentive plan pool accruals and significant changes to high risk incentive plans. This Committee also advises the Human Resources and Compensation Committee of the Board of Directors on compensation risk-related issues.
- **Credit and Operational Risk Management Committee (COSTEC):** COSTEC approves the credit and operational risk methodologies and assumptions that do not require review by the Risk Quantification Committee.
- **Credit risk mitigation (CRM):** 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.
- **EMEA Remuneration Governance Committee (ERGC):** ERGC is a regional governance committee that reviews the compensation plans and their implementation in the different businesses and entities of CaML in Europe, the Middle East and Africa (EMEA) (including, but not limited to, the EU Member States), in order to ensure their compliance with the laws and regulations on remuneration issued by the relevant states and regulatory authorities.
- **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.
- **Financial Conduct Authority** (FCA)**:** UK regulator of CaML.
- **High Level Assessment** (HLA)**:** An assessment of the quality of controls in place to mitigate risk and residual risk. Residual risk is assessed as High, Moderate to High, Moderate, Moderate to Low and Low with direction anticipated.
- **Human Resources and Compensation Committee (HRCC):** HRCC oversees the compensation plans, policies and programs in which the executive officers of the Bank participate and the other incentive, retirement, welfare and equity plans in which all employees of the Bank participate.
- **Institutions:** Under the Standardised approach, Institutions are classified as credit institutions or investment firms.
- **Internal Capital Adequacy Assessment Process (ICAAP):** 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.
- **Key Risk Indicator (KRI):** Key Risk Indicator are used by business lines to evaluate control effectiveness and residual risk within a business process.
- **Operating Committee (OpComm):** is responsible for project governance overview, risk and new product and business acceptance and meets on a monthly basis. Membership comprises business line management, risk and control representatives and senior managers.
- **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 CaML wishes to be exposed.
- **Risk and Control Self-Assessment (RCSA):** Risk and Control Self-Assessment is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls.

- **Risk Governance Framework:** The CaML risk governance framework has been developed in conjunction with BNYMC requirements. Key elements of the framework are:
  - Formal governance committees, with mandates and attendees defined
  - Clearly defined escalation processes, both informally (management lines) and formally (governance committees, board, etc)
  - A clear BAU process for identification, management and control of risks
  - Regular reporting of risk issues
- **Stress Testing and Economic Capital Committee (STEC):** which meets on a regular basis to provide governance on stress testing and economic capital
- **Standardised approach (SA):** For credit risk, a method for calculating credit risk capital requirements using external credit assessment institution 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.
- **The Standardised Approach (TSA):** For operational risk, the capital charge for each business line is calculated by multiplying net interest income and net non-interest income by a factor (denoted beta) assigned to that business line. Beta serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of net income for that business line.

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2013 PILLAR 3 DISCLOSURE

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