2013 PILLAR 3 DISCLOSURE

BNY MELLON HOLDINGS (UK) 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 Holdings (UK) Limited's parent undertaking. As such, these disclosures have been prepared for BNY Mellon Holdings (UK) Limited (or the Company) (BNYMH) and its principal UK regulated entity The Bank of New York Mellon (International) Limited (BNYMIL).

These disclosures have been approved by BNY Mellon Holdings (UK) Limited's Board of Directors which has 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 entities 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. 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.

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 the Bank of New York Mellon group 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 the bank 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.

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.

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

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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 31st, 2013 BNY Mellon had US$27.6 trillion in assets under custody and/or administration, and US$1.58 trillion in assets under management.

The 2013 Basel II Pillar 3 disclosures relate to BNY Mellon Holdings (UK) 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 Holdings (UK) Limited. BNYMH uses the Basel II Standardised Approach for calculating credit, market and operational risk.

This disclosure is prepared for BNY Mellon Holdings (UK) Limited or the 'Company' and its subsidiary undertakings (together the 'Group') as at December 31st, 2013.

These disclosures were approved for publication by the BNY Mellon Holdings (UK) Limited Board of Directors (hereafter the 'Board') on June 5th, 2014.

1.1 Purpose of Pillar 3

Basel II is an 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 by effecting market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to gauge the capital adequacy and risk profile of individual banks.

1.2 Highlights and Key Events

The Bank of New York Capital Markets Limited became a wholly-owned subsidiary of The Bank of New York Mellon (International) Limited as at November 18th, 2013. The Bank of New York Capital Markets Limited was previously a wholly-owned subsidiary of BNY International Financing Corporation.

No other important events impacting BNYMH took place in 2013.

2 Scope and Application of Directive Requirements

BNYMH is a wholly-owned subsidiary of BNY International Financing Corporation (BNYIFC), itself a wholly-owned US-regulated subsidiary of The Bank of New York Mellon (BNY Mellon) which is ultimately owned by The Bank of New York Mellon Corporation (BNYMC), a holding company with investments in banking and non- banking entities located or engaged in activities outside of the United States.

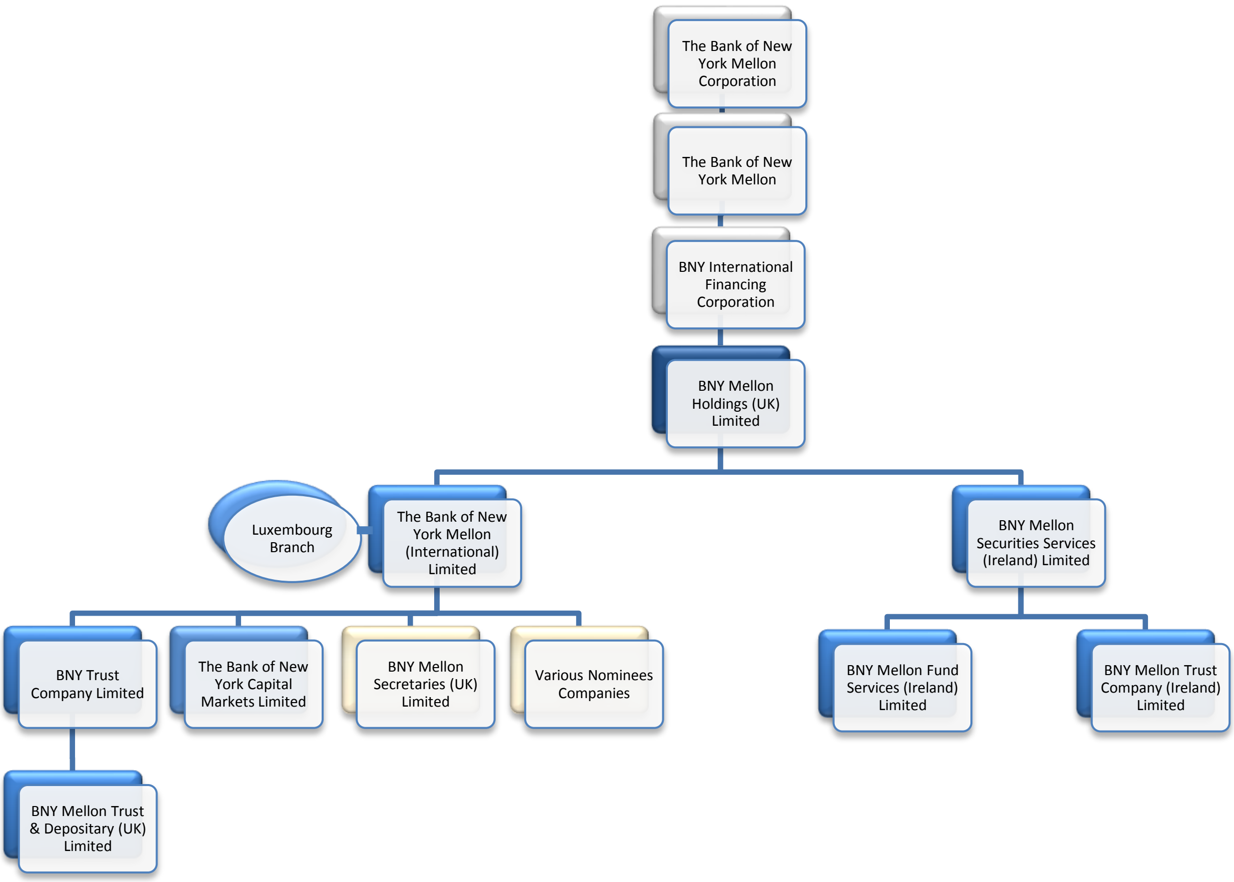
BNYMH is a financial holding company and parent of multiple companies and nominee companies domiciled in the UK and Ireland; all business is conducted through its subsidiaries and prudentially supervised at a consolidated level by the UK Prudential Regulation Authority (PRA). Through its operating subsidiaries, the BNYMH Group provides custody, fund administration, transfer agency and trustee services to both authorised and unauthorised unit trusts and depositary services to open-ended investment companies.

The Bank of New York Mellon (International) Limited (BNYMIL), a subsidiary of BNYMH, is a UK bank authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority. BNYMIL is the ultimate parent of BNY Mellon Trust & Depositary (UK) Limited and BNY Trust Company Limited, its main subsidiaries, provide trustee services principally in the UK to both authorised and unauthorised collective investment schemes. BNY Mellon Trust and Depositary (UK) Limited and BNY Trust Company Limited are both authorised and regulated by the Financial Conduct Authority. All three are incorporated in the UK.

BNY Mellon Securities Services (Ireland) Limited, a wholly owned subsidiary of BNY Mellon Holdings (UK) Limited, is the parent company of BNY Mellon Fund Services (Ireland) Limited and of BNY Mellon Trust Company (Ireland) Limited. BNY Mellon Fund Services (Ireland) Limited and BNY Mellon Trust Company (Ireland) Limited are incorporated in Ireland and are regulated by the Central Bank of Ireland.

The corporate structure of BNYMH is illustrated in Figure 1.

Figure 1: BNYMH corporate structure



3 Risk Management Objectives and Policies

3.1 Risk Management Framework

BNYMH approach to risk management is to ensure that all material risks are defined, understood and effectively managed according to well-designed policies, controls and other risk mitigation techniques.

BNYMH's risk appetite requires the maintenance of an appropriate Risk Management Framework that promotes a risk-aware and transparent culture through the identification, assessment, mitigation, measurement and escalation of risk and control issues.

BNYMH's risk appetite is aligned to the risk appetite of BNYMC. Its aim 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 in regard to all elements of risk to which BNYMH is exposed. BNYMH uses a variety of metrics to measure and monitor its risk taking activities relative to its risk appetite. Risk appetite is articulated through metrics and aids decision-making by determining actions such as 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

BNYMH's risk profile is evaluated through a number of risk assessment tools. The risk management team prepares and updates the Top Risk Assessment which is reviewed and approved by the BNYMH Risk Management Committee (RMC) monthly and the Board quarterly.

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

3.2.1 *Risk and Control Self-Assessment*

Risk and Control Self-Assessments (RCSA) are used by business lines to identify risks associated with key business processes and to complete a detailed assessment of the risks and the effectiveness of associated controls. RCSA control gaps and action plans form a key part of the standard risk management report sent to the RMC that provides oversight of risk to the business.

3.2.2 *Key Risk Indicators*

Key Risk Indicators (KRIs) are used by business lines to identify both internal and external causal factors that may drive changes to the operational risk profile. Material risks are monitored by appropriate KRIs. The business lines use the corporate KRI process to monitor changes in the probability of major risks materialising, and to ensure that appropriate action is taken. As a minimum, KRIs are reported on a monthly basis.

3.2.3 *Operational Risk Events*

All operational losses and fortuitous gains, including near misses are recorded in accordance with corporate policy using the Risk Management Platform, and verified through reconciliation to the Finance general ledger for completeness. Individual material losses (>US$50,000) and loss trend analysis is reported to the BNYMH RMC.

3.2.4 *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 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 RMC and board meetings. Top Risks are also consolidated into the BNY Mellon Top Risk Reporting process for reporting to regional risk committees.

3.2.5 *Stress Testing*

The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to the BNYMH 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 BNYMH's Stress Testing Oversight Committee (STOC) 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

BNYMH has established risk and stress testing framework to periodically review, challenge and approve risk and capital management processes. The goal of the Group'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.

Risk Management complies with corporate policies on Risk Appetite and Managing Risk culture centred on the Three Lines of Defence (figure 2). Within the Europe, Middle East and Africa (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

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

- **First line of defence**: Business Management, the Business Acceptance Committee, 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, the ICAAP Working Group, and audits the ICAAP Process

The RMC is responsible for ensuring that risk and compliance activities undertaken by BNYMH and its Subsidiaries are executed in accordance with internal policies and all relevant regulations. The RMC has oversight of the Subsidiaries and underlying businesses of BNYMH and reports to the Board and the EMEA Investment Services Risk and Compliance Committee.

At BNYMH, 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 RMC. 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 BNYMH forms part of the 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.

BNYMH’s Risk Appetite Statement is aligned to the appetite of BNY Mellon. Its aim is to maintain a balance sheet that remains strong across market cycles to meet the expectations of is major stakeholders, including clients, shareholders, employees and regulators.

The risk appetite is articulated through a comprehensive set of metrics across all material risk categories. Capital adequacy represents one of the core elements of BNYMC’s and BNYMH’s risk appetite. Thresholds are established to measure the performance of the business against its risk appetite.

The Board adopts a principally prudent appetite to all elements of risk to which the BNYMH is exposed.

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 within BNYMH arises chiefly from the banking operations, services and products provided by BNYMIL. 86% of its assets (as at December 31st, 2013) are subject to credit risk from banking activities in BNYMIL. These are through short-term bank placements provided to credit assessed, high quality counterparties; at-call deposits and typically client overdrafts. The remainder arises through surplus profit placements by the subsidiaries of BNYMH.

All counterparties (clients and banks) are assessed and allocated a credit rating in accordance with the BNY Mellon internal rating system. Monitoring and control is conducted via a number of real-time systems to ensure that approved exposure levels are not exceeded, or are pre-approved by a suitable Credit Officer in the light of individual circumstances.

The Board of BNYMIL (who carry out the banking activities) and BNYMH are provided Credit Risk Management Information on a regular (monthly) basis (as part of the overall Risk Committee Management Information pack) in addition to the real-time day to day monitoring carried out by the Credit Risk teams. There is a clear escalation structure from both Line of Business Management and Credit Risk Management in alerting both the regional Risk Management structure and the relevant BNYMIL and BNYMH management teams and Boards of breaches of policy, limits or other serious matters arising within the BNYMIL and BNYMH portfolio.

Banks

Money Market

Credit risk in Money Market interbank transactions principally arises from fixed term or overnight bank placements through cash or certificates of deposit.

Credit exposures arising for BNYMH on deposit placement is due chiefly to the banking activities of BNYMIL. Limit utilisation is monitored intraday and any excess of limit is referred to a dedicated Credit Officer for approval.

Nostros

BNYMIL maintains accounts with banks to enable cross-border money transfers. These accounts are maintained at the minimum possible level and within relevant large exposures limits.

Clients

Daylight (intraday)

Intraday overdraft limits may be provided (subject to relevant Credit Policy) for clients. Cash payments are checked against limits on a real-time basis. Any excesses are referred to a Credit Officer for approval. Facilities may include Securities purchase, cash and FX intraday credit lines.

Overdrafts

BNYMIL may provide overdraft facilities for clients. Overdrafts are typically casual in nature due to trade failures within the custody product. Advised (but uncommitted) facilities also exist and are granted on a case by case basis within the remit of the relevant Credit Policies. Transfer Agency clients may also require credit facilities (including overdrafts) to facilitate payment timing mismatch issues

All client intraday and overnight exposures are monitored by the relevant Operating Credit Unit. Excesses and facility breaches are escalated and included within the monthly Management Information provided to the relevant Risk Committee.

3.5.1 *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 BNYMH. 86% of its assets as at December 31st, 2013 are subject to credit risk from banking activities in BNYMIL, hence the tables below relate to credit exposures within BNYMIL.

i) Standardised gross Credit exposure (EAD pre CRM)

The following table summarises the standardised gross credit exposure by class as at December 31st, 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**		**Average EAD pre CRM**		**Standardised Credit Risk Capital Requirement**	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Central Governments and Central Banks	521,658	348,997	493,475	388,513	-	-
Institutions	-	-	6,675	5,535	-	-
Corporates	27,947	3,398	24,906	9,379	2,286	272
Short term claims on Institutions and Corporates	1,359,138	844,396	1,175,954	735,148	16,947	11,431
Collective Investment Undertakings	52,070	36,550	42,320	63,256	4,166	2,924
Other	38,966	64,948	68,105	62,658	3,100	5,196
Total	**1,999,779**	**1,298,289**	**1,811,434**	**1,264,488**	**26,499**	**19,823**

ii) Standardised gross Credit exposure (EAD pre CRM) by industry sector[1]

The following table summarises the standardised gross credit exposure by industry sector as at December 31st, 2013.

Table 2: Standardised pre and post credit exposure by Credit Quality Step [2]

Standardised Pre-mitigated Credit Exposures by Credit Quality Step	**Central Governments and Central Banks**		**Institutions: Maturity <= 3m**		**Institutions: Maturity > 3m**		**Corporates**		**Other**		**Total**	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
1	521,658	348,997	-	-	-	-	1,359,138	844,396	-	-	1,880,796	1,193,393
2	-	-	-	-	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	27,947	3,398	91,036	101,498	118,983	104,896
4	-	-	-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-	-	-	-	-	-
Total	**521,658**	**348,997**	-	-	-	-	**1,387,085**	**847,794**	**91,036**	**101,498**	**1,999,779**	**1,298,289**

Standardised Post-mitigated Credit Exposures by Credit Quality Step	**Central Governments and Central Banks**		**Institutions: Maturity <= 3m**		**Institutions: Maturity > 3m**		**Corporates**		**Other**		**Total**	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
1	521,658	348,997	-	-	-	-	1,359,138	844,396	-	-	1,880,796	1,193,393
2	-	-	-	-	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	27,947	3,398	91,036	101,498	118,983	104,896
4	-	-	-	-	-	-	-	-	-	-	-	-
5	-	-	-	-	-	-	-	-	-	-	-	-
6	-	-	-	-	-	-	-	-	-	-	-	-
Total	**521,658**	**348,997**	-	-	-	-	**1,387,085**	**847,794**	**91,036**	**101,498**	**1,999,779**	**1,298,289**

iii) Standardised gross Credit exposure (EAD pre CRM) by geographical area[2]

The following table summarises the standardised gross credit exposure by geographic area as at December 31st, 2013.

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

Table 3: Standardised gross credit exposure by geographic area

Standardised exposure classes	Europe		Americas		Africa		Asia Pacific		Total	
(£000s)	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Central Governments and Central Banks	521,658	348,997	-	-	-	-	-	-	521,658	348,997
Institutions	-	-	-	-	-	-	-	-	-	-
Corporates	27,947	3,398	-	-	-	-	-	-	27,947	3,398
Short term claims on Institutions and Corporates	618,689	377,327	459,057	250,614			281,392	216,455	1,359,138	844,396
Collective Investment Undertakings	52,070	36,550	-	-	-	-	-	-	52,070	36,550
Other	38,959	64,948	7	-	-	-	-	-	38,966	64,948
Total	**1,259,323**	**831,220**	**459,064**	**250,614**	**-**	**-**	**281,392**	**216,455**	**1,999,779**	**1,298,289**

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

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

Table 4: Standardised gross credit exposure by residual maturity

Standardised gross credit exposure by residual maturity	Less than 3 months		3 months to 1 year		Over 1 year or undefined		Total	
(£000s)	2013	2012	2013	2012	2013	2012	2013	2012
Central Governments and Central Banks	521,658	348,997	-	-	-	-	521,658	348,997
Institutions	-	-	-	-	-	-	-	-
Corporates	27,947	3,398	-	-	-	-	27,947	3,398
Short term claims on Institutions and Corporates	1,359,138	844,396	-	-	-	-	1,359,138	844,396
Collective Investment Undertakings	52,070	36,550	-	-	-	-	52,070	36,550
Other	-	-	38,966	64,948	-	-	38,966	64,948
Total	**1,960,813**	**1,233,341**	**38,966**	**64,948**	-	-	**1,999,779**	**1,298,289**

3.5.2 *Capital Resource Requirement*

BNYMH calculates Pillar 1 credit risk capital resource requirement using the Standardised Approach, as defined in BIPRU 3.1.6R.

3.6 Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty to a contract recorded in either the trading book or non-trading book defaults before fulfilment of cash-flow obligations.

Counterparty credit risk arises from fixed term placement or overnight bank placements through cash or certificates of deposit.

As at December 31st, 2013, BNYMH does not have a trading book.

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 and equity and commodity prices.

BNY Mellon has established market risk limits (including Value at Risk ('VaR') limits which are set in line with the Firm's risk appetite. BNY Mellon's Markets Risk function monitors and reports the utilisation of these limits on a daily basis. Any breaches of the limits are reported to the Firm's management.

BNYMH exposure to market risk arises mainly from foreign exchange (FX) risk from operational flows in foreign currencies as non-UK clients are billed in US dollars. A lower amount of market risk also arises as a result of interbank and central bank placements or other collective investment undertakings (CIUs).

3.7.1 *Capital Resource Requirement*

BNYMH calculates the Pillar 1 market risk capital resource requirement for FX on based on an accounting consolidation as defined in BIPRU 7.5.

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

BNYMH 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 by the Business Management. The Risk Management teams have an independent oversight role for this reporting.

The Board monitors operational risks and the appropriateness of controls through the RMC and independent reporting from risk managers. This requires BNYMH to regularly update its RCSAs, as well as monthly KRIs and prompt reporting of any significant financial impacts as a result of errors.

Risk Management performs monitoring appropriate to the business and identified risks, which includes KRI reporting, significant event analysis and ad hoc reviews. Moreover, the key elements of the RCSA, internal control environment, monitoring and governance arrangements are routinely reviewed and challenged by the RMC.

3.8.1 *Capital Resource Requirement*

BNYMH calculates the Pillar 1 operational risk capital resource requirement under the Basel II Standardised Approach; it has been determined that BNYMH falls under the Agency Services Basel business line as defined in BIPRU 6.4.15 (or Article 317 CRR[3] from January 1st, 2014 onwards). The standard indicator approach for operational risks sets out a 15% risk rate for a single indicator that is determined by the sum of net interest income and net non-interest income.

3.9 Liquidity Risk

Liquidity Risk is the risk that BNYMH 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 BNYMH's liquidity risk profile and are considered in the liquidity risk framework.

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

BNYMH 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] CRR denotes Capital Requirements Regulation under Regulation (EU) No 575/2013

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 BNYMH and its directors to fines, payment of damages, the voiding of contracts and damaged reputation (with accompanying indirect costs).

BNYMH establishes 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, Legal and Risk functions. Impact assessments are performed and implementation plans established where necessary to ensure compliance.

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 the Group is within the Asset Servicing business including Alternative Investment Services sector as this is mainly driven by the fact that fees are significantly based on the client's Net Asset Value (NAV) for Fund Accounting and Custody. As business risk is difficult to assess, it has been defined as the residual risks that confront the Group, after taking all the known and quantifiable risks into consideration.

3.12 Outsourcing Risk

Outsourcing risk is the risk that failure in respect of the provision of services by third party provider(s) that 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.

BNYMH relies on internal and external outsourcing entities within and outside of the BNYMC group to perform its core business activities on a continuing basis. Outsourcing is driven by strategic decisions undertaken at both the Line of Business and Board of Directors level.

BNYMH's Outsourcing Policy 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.

The Board believes that outsourcing risks are sufficiently mitigated by business continuity plans and service level agreements, and adequate operational risk capital is held to protect BNYMH.

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).

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.

BNYMH is exposed to credit concentration risk through BNYMIL banking activities. BNYMIL will only place funds with institutions with a credit rating equivalent to the S&P Long Term Issuer Rating of A- or above. This policy reduces the number of counterparties where funds can be placed, and hence increases the concentration risk. BNYMIL mitigates this risk by restricting the tenor of placements, generally overnight up to a maximum of three months. Additionally, individual counterparty placement limits are set at a level to ensure compliance with Large Exposure Regime.

3.14 Group Risk

Group risk is the risk that the financial position of BNYMH 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.

BNYMH has group dependencies on BNY Mellon, including business leadership, dependency on certain IT systems and support services provided by central functions. BNYMH has a number of operational dependencies on the BNY Mellon Group, and incorporates concentration risk in its operational modelling and assessment. In addition, BNYMH places client cash deposits with other entities in the BNY Mellon Group and therefore is exposed to credit and liquidity concentration risks with BNYMC. This concentration risk is mitigated through placement of funds matched for maturity (tenor) and currency.

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 IRR is monitored by the Market Risk Management Team and has a daily VaR calculation against a stop loss limit. Any breaches would be reported to the RMC and the Board.

3.16 Legal Risk

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

BNYMH reduces its legal risk through standardised contracts, 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.

BNYMH 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 overseas 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. BNYMH 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.

BNYMH relies on governance processes to monitor and/or mitigate strategic risk. BNYMH 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.

4 Capital Resources

The following table summarises the capital resources for BNYMH and BNYMIL, as at December 31st, 2013. The summary of Pillar 1 capital requirements are presented by exposure class, and the associated capital surplus and capital adequacy ratio.

Information about capital terms and conditions are also set out in the Company's Annual Report and Accounts 2013.

Table 5: Capital resources

As at 31 December Capital Resources (£000s)	BNYMH		BNYMIL	
	2013	2012	2013	2012
Tier 1 Capital				
Called up Share Capital	147,211	100,000	249,695	202,484
Retained Earnings and other Reserves	299,846	254,684	58,911	35,265
Total Tier 1 Capital	447,057	354,684	308,606	237,749
Deductions from Tier 1 Capital				
Intangible Assets	-14,526	-19,226	-210	-350
Total Tier 1 Capital after deductions	432,531	335,458	308,396	237,399
Tier 2 Capital				
Lower Tier 2 Capital				
Deated subordinated debt	113,686	91,000	73,686	75,000
Total Tier 2 Capital	113,686	91,000	73,686	75,000
Deductions from total of tiers 1 and 2 capital				
Material Holdings	-47,211	-	-47,211	-
Connected lending of a capital nature	-146,900	-155,905	-146,900	-155,905
Total Deductions from total of tiers 1 and 2 capital	-194,111	-155,905	-194,111	-155,905
Total Capital Resources	**352,106**	**270,553**	**187,971**	**156,494**

Note 1: £47m Material holding deduction is BNYMIL's investment in Capital Markets Limited. The investment was made on 18 December 2013.

4.1 Risk Weighted Assets

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

Table 6: Risk Weighted Assets by risk type

As at 31 December Risk Weighted Assets (RWAs) by risk type (£000s)	BNYMH		BNYMIL	
	2013	2012	2013	2012
Credit Risk	401,988	296,963	331,238	247,788
Operational Risk	639,313	625,363	374,500	378,138
Market Risk	5,088	3,688	5,088	3,688
Total RWAs	**1,046,388**	**926,013**	**710,825**	**629,613**

5 Capital Requirements and Adequacy

The following table details the Pillar 1 capital requirements by exposure class for BNYMH and BNYMIL as at December 31st, 2013.

Table 7: Capital requirements by risk type

As at 31 December Capital Requirements and Adequacy (£000s)	**BNYMH 2013**	**BNYMH 2012**	**BNYMIL 2013**	**BNYMIL 2012**
Credit Risk Standardised Approach				
Central Governments and Central Banks	-	-	-	-
Institutions	-	-	-	-
Corporates	2,286	272	2,286	272
Short term claims on Institutions and Corporates	17,574	12,936	16,947	11,431
Collective Investment Undertakings	4,166	2,924	4,166	2,924
Other	8,133	7,625	3,100	5,196
Total Credit Risk capital requirement	32,159	23,757	26,499	19,823
Operational Risk - standardised approach	51,145	50,029	29,960	30,251
Market Risk				
Foreign currency Position Risk Requirement	407	295	407	295
Total Market Risk capital requirement	407	295	407	295
Total Pillar 1 Capital Requirements	83,711	74,081	56,866	50,369
Total Capital Resources	352,106	270,553	187,971	156,494
Capital surplus	268,395	196,472	131,105	106,125
Total Capital Resources / Total Pillar 1 Capital Requirements	**421%**	**365%**	**331%**	**311%**

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, the company'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 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 BNYMH. Remuneration policy decisions of the BNYMH rests 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 BNYMH 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, compliance 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 BNYMH for the year ending December 31st, 2013.

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

Table 8: Aggregate remuneration expenditure for Code Staff in 2013 by business[1]

	BNYH			BNYMIL		
	Investment Services £000s	Other[2] £000s	Total £000s	Investment Services[3] £000s	Other[2] £000s	Total £000s
	2,026	6,484	8,510	2,026	6,484	8,510

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.

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

	BNYH			BNYMIL		
	Senior Management[2]	Other Code Staff	Total	Senior Management	Other Code Staff	Total
Number of beneficiaries	6	12	18	6	12	18
Fixed remuneration (£000s)[1]	1,630	2,368	3,998	1,630	2,368	3,998
Variable remuneration (£000s)	3,005	1,507	4,512	3,005	1,507	4,512

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
- **Business Management:** Business Management refers to management along BNYs Lines of Business
- **CCR:** Counterparty Credit Risk
- **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.
- **CRD:** Capital Requirements Directive
- **Credit and Operational Risk Management Committee (CORMC):** CORMC 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:** Europe, Middle East and Africa
- **Executive Remuneration Governance Committee (ERGC):** Executive Remuneration Governance Committee. The ERGC is a regional governance committee that reviews the compensation plans and their implementation in the different businesses and entities of the Company 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.
- **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 of the Company (HRCC):** Human Resource Compensation Committee. The HRCC of the Company oversees the compensation plans, policies and programs in which the executive officers of the Company participate and the other incentive, retirement, welfare and equity plans in which all employees of the Company 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.
- **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.
- **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 BNYMH 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
- **Risk Management Committee (RMC):** Risk Management Committee which meets on a monthly basis to provide governance on risk related items arising from the business of the group
- **Standardised approach:** In relation to 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.

8 Contacts

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2013 PILLAR 3 DISCLOSURE

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