BNY MELLON HOLDINGS (UK) LTD

2012 PILLAR 3 DISCLOSURE

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 (BNYMH or the Company) and its principal UK regulated entity The Bank of New York Mellon (International) Limited (BNYMIL).

These disclosures have been approved by BNYMH'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 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.

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

Pillar 3 disclosures are published annually as at the Company's Accounting Reference Date, 31st December and publication thereafter takes place as soon as practicable. The Company will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy and information about risk exposure and other items prone to rapid change.

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

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

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

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

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

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

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1 Introduction

This disclosure is for BNY Mellon Holdings (UK) Limited (BNYMH) and its subsidiary undertakings (together the 'group') as at 31 December, 2012.

These disclosures were approved for publication by the BNYMH Board of Directors (hereafter the 'Board') on July 5 2013.

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 better understand the risk profile of individual banks and to make comparisons.

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.

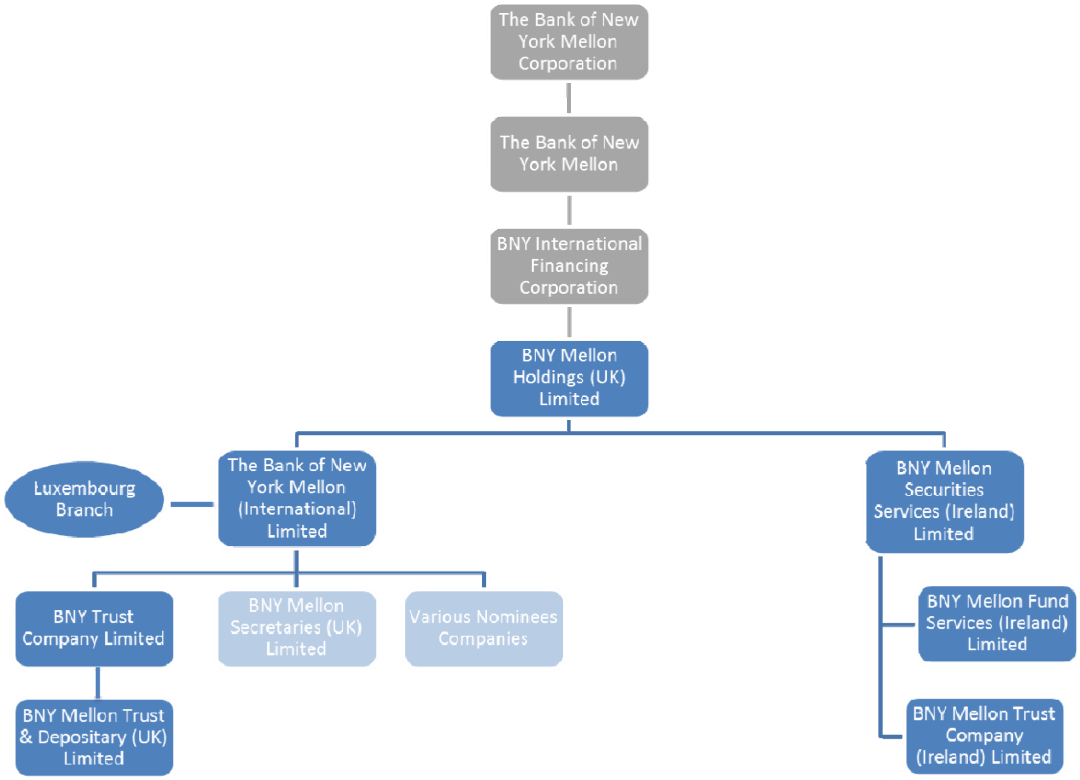
BNYMH is a financial holding company and parent of multiple companies and nominee companies domiciled in the UK and Ireland; all business is conducted through its subsidiaries and supervised at a consolidated level by the UK Prudential Regulation Authority (PRA). Through its operating subsidiaries, the BNYMH group provides custody, fund administration, transfer agency, investment administration 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, its main subsidiary, providing trustee services principally in the UK to both authorised and unauthorised collective investment schemes. BNY Mellon Trust and Depositary (UK) Limited is authorised and regulated by the Financial Conduct Authority. Both companies are incorporated in the UK.

BNY Mellon Securities Services (Ireland) Limited, a wholly owned subsidiary of BNY Mellon Holdings (UK) Limited, is the parent 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'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.

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

BNYMH'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 BNYMH is exposed. BNYMH uses a variety of metrics to measure and monitor its risk taking activities relative to its risk appetite. Articulating risk appetite through its metrics aids important decision-making by determining actions such as pursuing new products and enterprises, exiting businesses, and aligning resources to maximize potential gains given acceptable levels of risk.

3.2 Scope and Nature of Risk Reporting Systems

BNYMH's risk profile is recorded 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 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 business lines 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 RMC, 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 fortuitous gains exceeding USD 10,000 are recorded using the Risk Management Platform, and verified through reconciliation to the Finance general ledger for completeness. Risk events are categorised and reported to the RMC 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 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.

3.2.6 *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 governance to periodically review, challenge and approve risk and capital management processes.

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 all subsidiaries and underlying businesses of BNYMH and reports to the Board and the EMEA Investment Services Risk and Compliance Committee.

The Board is responsible for both the management and the oversight of risks together with the quality and effectiveness of internal controls. The Board is responsible for reviewing, challenging and approving all risk management processes including risk identification and assessment, stress testing and capital adequacy.

3.3.1 Business Unit Risk

Business Acceptance Committees are responsible for aligning new business to appropriate business lines and subsidiaries and 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 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 & Compliance Committee
- EMEA Asset & 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; where capital represents one of the core elements of BNYMC's risk appetite. Thresholds are established to measure the performance of the business against its risk appetite.

3.5 Credit Risk

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

BNYMH has a deposit focused liability driven balance sheet. 83% of its assets (as at 31 December 2012) 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 various receivables from clients. 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.

Credit is approved through the credit risk function of BNY Mellon, within the risk appetite tolerances of BNYMH. Monitoring is undertaken on a deal by deal basis and exceptions reported to the RMC.

Banks

Money Market

Credit risk principally arises from fixed term or overnight bank placements through cash or certificates of deposit.

Limits for all banks are managed under BNYMC and a subset within the overall limit is managed under 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 the large exposures limits.

Clients

Daylight (intraday)

Intraday overdraft limits are set for each client as a percentage of a client's assets under custody. All cash payments are checked against this limit on a real-time basis. Any excesses are referred to a credit officer for approval.

Overdrafts

BNYMH provides formal overdraft facilities for specific clients at their request to allow some gearing of the portfolio. Overdrafts are restricted to 35% of asset value and each request is individually considered and must be approved by an independent credit officer.

3.5.1 *Credit Risk Exposure*

The following credit risk exposure tables (1) to (4) summarise the credit exposure for BNYMIL, which is the principal operating company in the group.

i) Standardised gross credit exposure by class

The following table summarises the standardised gross credit exposure by class as at 31 December 2012.

Table 1: Standardised gross credit exposure by class

Standardised gross credit exposure by class	Exposure At Default (EAD) pre Credit Risk Mitigation (CRM)		Average EAD pre CRM	
	2012	2011	2012	2011
	£000s		£000s	
Central Governments and Central Banks	348,997	858,679	388,513	208,864
Institutions	-	-	5,535	4,353
Corporates	3,398	1,669	9,379	15,574
Short term claims on Institutions and Corporates	844,396	254,093	735,148	1,079,162
Collective Investment Undertakings	36,550	23,397	63,256	49,827
Other items	64,948	55,198	62,658	76,423
Total	**1,298,289**	**1,193,036**	**1,264,489**	**1,434,203**

ii) Standardised gross credit exposure by industry sector

The following table summarises the standardised gross credit exposure by industry sector as at 31 December 2012

Table 2: Standardised gross credit exposure by industry sector

Standardised gross credit exposure by industry sector	Central Governments and Central Banks		Corporates		Short term claims on Institutions & Corporates		Collective Investment Undertakings		Other items		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	£000s		£000s		£000s		£000s		£000s		£000s	
Central and local government	348,997	858,679	-	-	-	-	-	-	-	-	348,997	858,679
Insurance companies and pension funds	-	-	3,004	1,116	-	-	-	-	-	-	3,004	1,116
Banks and other financial	-	-	387	546	844,396	254,093	36,550	23,397	-	-	881,333	278,036
Other business activities	-	-	-	-	-	-	-	-	64,948	55,198	64,948	55,198
Personal & community service activities	-	-	7	-	-	-	-	-	-	-	7	-
Other individual loans and advances	-	-	-	7	-	-	-	-	-	-	-	7
Total	**348,997**	**858,679**	**3,398**	**1,669**	**844,396**	**254,093**	**36,550**	**23,397**	**64,948**	**55,198**	**1,298,289**	**1,193,036**

iii) Standardised gross credit exposure by geographic area

The following table summarises the standardised gross credit exposure by geographic area.

Table 3: Standardised gross credit exposure by geographic area

Standardised exposure classes	UK		Europe, Middle East & Africa		North America		Asia Pacific		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	£000s		£000s		£000s		£000s		£000s	
Central Governments and Central Banks	-	-	348,997	858,679	-	-	-	-	348,997	858,679
Institutions	-	-	-	-	-	-	-	-	-	-
Corporates	3,012	1,089	386	580	-	-	-	-	3,398	1,669
Short term claims on Institutions and Corporates	205,218	81,020	172,109	54,304	250,614	115,845	216,455	2,924	844,396	254,093
Collective Investment Undertakings	36,550	18,300	-	-	-	-	-	5,097	36,550	23,397
Other items	64,948	55,198	-	-	-	-	-	-	64,948	55,198
Total	**309,728**	**155,607**	**521,492**	**913,563**	**250,614**	**115,845**	**216,455**	**8,021**	**1,298,289**	**1,193,036**

iv) Standardised gross credit exposure by residual maturity

The following table summarises the standardised gross credit exposure by residual maturity.

Table 4: Standardised gross credit exposure by residual maturity

Standardised gross credit exposure by residual maturity	On Demand		Up to 1 year excluding On Demand		Total	
	2012	2011	2012	2011	2012	2011
	£000s		£000s		£000s	
Central Governments and Central Banks	348,997			858,679	348,997	858,679
Corporates	3,398	1,669			3,398	1,669
Short term claims on Institutions and Corporates	118,785	133,778	725,611	120,315	844,396	254,093
Collective Investment Undertakings	36,550	23,397			36,550	23,397
Other items			64,948	55,198	64,948	55,198
Total	**507,730**	**158,844**	**790,559**	**1,034,192**	**1,298,289**	**1,193,036**

3.5.2 *Capital Resource Requirement*

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

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.

As at 31 December 2012, BNYMH had no trading book or derivatives in the non-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 risk limits (including value at risk ('VaR') limits and stop loss advisory trigger amounts) and monitoring limits within the risk appetite tolerance. BNY Mellon's Global Markets Risk function distributes a daily VaR report. Daily limits are monitored through regular reporting to management and through a designated market risk officer.

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 smaller amount of market risk also arises from investment in money market or other collective investment undertakings.

3.7.1 *Capital Resource Requirement*

BNYMH calculates the Pillar 1 market risk capital resource requirement for FX on an accounting consolidation basis.

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 the potential for loss that arises from problems with operational processing, human error or omission breaches in internal controls, fraud, and unforeseen catastrophes. It also includes risk of regulatory action or reputational damage. BNYMH is subject to a number of corporate policies relating to operational risk and the BNYMC Risk Governance Framework.

Business managers are responsible for RCSAs, which include 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. 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 update regularly 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. Risk Management is also required to formally review the AMA Scenarios on a quarterly basis as part of the quarterly ICAAP refresh process. 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 using the Basel II Standardised Approach under Agency Services business line, as defined in BIPRU 6.4.15.

3.9 Liquidity Risk

The group's tolerance for liquidity risk is moderately low. The overall approach to liquidity management is to ensure that sources of liquidity are sufficient in amount and diversity, such that changes in funding requirements can be accommodated routinely without material adverse impact on earnings, daily operations, or on the financial condition of the group.

In this context, the group has set certain practices, metrics, and limits to measure and manage liquidity risk. Through these measures, the group seeks to ensure that the overall liquidity risk undertaken by the group stays within its risk appetite. In the liquidity stress tests the group undertakes, the group seeks sufficient liquidity at the two week and three month measurement date when computed under BNYMIL's bespoke stress scenarios and PRA prescribed scenarios.

The group seeks to maintain the following liquidity principles that are consistent with the risk appetite:

- Maintain sufficient funding sources to meet normal as well as unexpected peak requirements, giving appropriate consideration to the level of commitments, the volatility of funding sources, market perceptions of the group and overall market conditions
- Maintain liquidity ratios within approved limits and liquidity risk appetite
- Maintain a liquid asset buffer that can be liquidated, financed, and/or pledged as necessary to provide funding for committed activities without the risk of incurring significant losses on disposition
- Utilise systems capable of monitoring, measuring and reporting performance on a timely basis
- Manage liquidity risk in each significant currency across the group

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 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 e.g. market contraction, reduced margins from competition, adverse customer selection and business concentration.

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 is exposed to outsourcing risk from internal BNYMC group sister entities and from external service providers. BNYMH closely monitors service providers, and makes arrangements to mitigate the impact of any disruption to services arising from outsourcing through business continuity planning and service level agreements.

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).

BNYMH is exposed to concentration through:

- Cash placements
- Client contribution to revenue
- Processing systems supported by external vendors
- People and processes provided by BNYMC group entities

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 Moody's external rating of AA- or above. This policy reduces the number of counterparties where funds can be placed, and hence increases the concentration risk. BNYMIL mitigates this risk through short-term placements, generally overnight up to a maximum of three months. Additionally, a limit is in place to ensure compliance with Large Exposure Regime.

3.13.2 *Market Concentration Risk*

BNYMH is exposed to market risk from foreign exchange exposure.

3.13.3 *Liquidity Concentration Risk*

BNYMH can be exposed to liquidity concentration risk through significant client cash placements.

This concentration risk is mitigated through placement of funds matched for maturity (tenor) and currency.

3.13.4 *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.

BNYMH incorporates concentration risk in its operational risk modelling and assessment.

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 management and support services, and business services provided by other companies within the BNY Mellon group. Additionally, BNYMIL places funds with other banks within the BNY Mellon group, exposing BNYMH to credit and liquidity risks with BNYMC.

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 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 controlled by the BNY Mellon model risk management process under the responsibility of the BNY Mellon Credit and Operational Risk Management Committee (CORMC) and the BNY Mellon Risk Quantification and Modelling Committee. The Risk Quantification Committee maintains the model inventory, and oversees model review. BNY Mellon Internal Audit reviews compliance with the corporate Model Validation Policy.

3.18 Pension Obligation Risk

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 is the risk to the brand and relationships arising from internal or external events.

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 robust 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, the subsidiary contributing most to the group's capital resources, as at 31 December 2012. The summary 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 2012.

Table 5: Capital resources & requirements by exposure class, capital surplus, and capital adequacy ratio

As at 31 December Capital Resources (£000s) [(2)]	BNYMH 2012	BNYMIL 2012	BNYMH 2011	BNYMIL 2011
Tier 1 Capital				
Called up Share Capital	264,902	202,484	264,902	202,484
Retained Earnings and other Reserves	89,782	35,265	40,282	12,351
Total Tier 1 Capital	354,684	237,749	305,184	214,835
Deductions from Tier 1 Capital				
Intangible Assets [1]	-19,226	-350	-23,475	-490
Total Tier 1 Capital after deductions	**335,458**	**237,399**	**281,709**	**214,345**
Tier 2 Capital				
Lower Tier 2 Capital				
Dated subordinated debt	91,000	75,000	99,000	75,000
Total Tier 2 Capital	**91,000**	**75,000**	**99,000**	**75,000**
Deductions from total of tiers 1 and 2 capital				
Connected lending of a capital nature	-155,905	-155,905	-144,880	-144,880
Total Deductions from total of tiers 1 and 2 capital	-155,905	-155,905	-144,880	-144,880
Total Capital Resources	**270,553**	**156,494**	**235,829**	**144,465**

(1) Intangible assets principally comprise of goodwill
(2) Not all figures reported above are audited: BNYMIL data has been audited and BNYMH consolidated is unaudited. The figures are published side by side to aid the reader's analysis and understanding of BNYMH and BNYMIL's risk profile.

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 by risk type (£000s)	BNYMH 2012	BNYMIL 2012	BNYMH 2011	BNYMIL 2011
Credit Risk	296,963	247,788	163,400	134,738
Operational Risk	625,363	378,138	520,463	315,125
Market Risk	3,688	3,688	8,788	8,788
Total RWAs	**926,013**	**629,613**	**692,650**	**458,650**

5 Capital Requirements and Adequacy

The following table details the Pillar 1 capital requirements by exposure class for BNYMH and BNYMIL, the subsidiary requiring the greatest amount of capital within the group.

Table 7: Capital requirements by exposure class

As at 31 December	BNYMH	BNYMIL	BNYMH	BNYMIL
Capital Requirements & Adequacy (£000s)	**2012**		**2011**	
Credit Risk Standardised Approach				
Corporates	272	272	514	514
Short term claims on Institutions & Corporates	12,936	11,431	3,668	4,383
Collective Investment Undertakings	2,924	2,924	1,464	1,464
Other Items	7,625	5,196	7,426	4,418
Total Credit Risk capital requirement	**23,757**	**19,823**	**13,072**	**10,779**
Operational Risk – standardised approach	**50,029**	**30,251**	**41,637**	**25,210**
Market risk				
Foreign currency Position Risk Requirement	295	295	703	703
Total Market Risk capital requirement	**295**	**295**	**703**	**703**
Total Pillar 1 Capital Requirements	**74,081**	**50,369**	**55,412**	**36,692**
Capital surplus	**196,472**	**106,125**	**180,417**	**107,773**
Total Capital Resources / Total Pillar 1 Capital Requirements	**365.2%**	**310.7%**	**425.6%**	**393.7%**

6 Remuneration Disclosure

6.1 Governance

The Human Resources and Compensation Committee (HRCC) of BNYMC 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 BNYMC Board of Directors to act on behalf of the Board on remuneration matters.

Formal input to the decision-making process on compensation is also provided by BNY Mellon's Compensation and 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. The COC's primary responsibility is to advise the HRCC on any remuneration risk-related issues.

For alignment with local regulations in the EMEA region, the EMEA Remuneration Governance Committee (ERGC) was set-up as a regional governance committee that reviews compliance with local regulations affecting BNY Mellon's EMEA businesses, including BNYMH.

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.

6.4 Variable Compensation Funding and Risk Adjustment

The staff of BNYMH are eligible to be awarded variable compensation. Such variable compensation consists of a cash part, 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.

In order to align cash pay-outs with the management of the longer term business risk, BNY Mellon has established a corporate deferral program. This program defers payment of a portion of a senior employee's cash bonuses in the form of restricted stock units.

Portions of the variable compensation of Code Staff are also paid in BNYMC shares which are subject to a six month hold period, in restricted stock units that vest rateably over three years and are subject to a six month hold period after vesting, and in deferred cash that vests rateably over three years.

Furthermore, BNY Mellon requires employees who receive cash bonuses to agree to clawback and/or forfeiture provisions on such awards in the event of fraud or conduct contributing to financial restatement or irregularities. Code and Identified Staff are also required to agree to clawback and/or forfeiture provisions that are aligned to relevant regulatory requirements.

6.5 Deferral Policy and Vesting Criteria

On top of cash awards, senior employees can be eligible for awards under the BNY Mellon Long term Incentive Plan (LTIP), in the form of restricted stock units linked to BNYMC's stock price. For 2012 restricted stock units will typically vest rateably over four years, but other deferral periods are possible.

6.6 Variable Remuneration of Control Function Staff

The variable remuneration of 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 BNYMC'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 31 December 2012.

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. This is a change in methodology to prior years where remuneration was presented on a time apportioned basis

Table 8: Aggregate remuneration expenditure for Code Staff in 2012 by businsess[1]

	BNYMH			BNYMIL		
	Investment Services[3]	Other[2]	Total	Investment Services[3]	Other[2]	Total
	£000s	£000s	£000s	£000s	£000s	£000s
	-	7,521	7,521	-	7,521	7,521

1. Includes base salary and other cash allowances, plus any cash incentive and the total of any awards made in BNYMC 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 category.

Table 9: Aggregate remuneration expenditure for Code Staff in 2012 by remuneration type

	BNYMH			BNYMIL		
	Senior Management[2]	Other Code Staff	Total	Senior Management	Other Code Staff	Total
Number of beneficiaries	6	11	17	6	11	17
Fixed remuneration (£000s)[1]	1,588	2,088	3,676	1,588	2,088	3,676
Variable remuneration (£000s)	2,514	1,331	3,845	2,514	1,331	3,845

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
- **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.
- **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.
- **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
- **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.

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