



BNY MELLON



BNY Mellon Investment Management Europe Holdings Limited

2014 PILLAR 3 DISCLOSURE

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Pillar 3 Disclosure

This Pillar 3 disclosure is published in accordance with the requirements of the Financial Conduct Authority ('FCA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3). Throughout 2014 BNY Mellon Investment Management Europe Holdings Limited was a CRD IV Consolidation group as a consequence of one legal entity controlling client money which in turn would normally lead to Pillar 3 disclosures being made under the Capital Requirement's Regulation. However, at the time of disclosure this activity has ceased and all client money's have been returned and client money accounts closed. No CRD IV activities remain within the consolidation group and this disclosure has therefore been produced on a 'going forward' basis.

Policy and Approach

These disclosures have been approved by BNY Mellon Investment Management Europe Holdings 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 disclosure, 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. 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 Company's website.

The Board may omit one or more disclosures if the information provided is not regarded as material. The criterion for materiality used in these disclosures is that 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 approach to Pillar 3 disclosure 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 31 2014, BNY Mellon had \$28.5 trillion in assets under custody and/or administration, and \$1.7 trillion in assets under management.

This Pillar 3 disclosure relates to BNY Mellon Investment Management Europe Holdings Limited and is published in accordance with the requirements of the 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 the consolidation group headed by BNY Mellon Investment Management Europe Holdings Limited (IMEH).

The IMEH group forms the EMEA arm of BNY Mellon's global asset management business. In common with the global strategy, it operates the 'multi-boutique' model. Under this model each of the firms acquired or established operates with a significant degree of operational autonomy. The strategy of the various subsidiaries is decided by the individual Boards. Through the appointment of senior management to the individual Boards, the Group have input into and oversight of the on-going development and assessment of that strategy.

This disclosure was approved for publication by the BNY Mellon Investment Management Europe Holdings Limited Board of Directors (hereafter the 'Board') on 14 July 2015.

1.1 Purpose of Pillar 3

The EU Capital Requirements Directive's (CRD) are the genus of the FCA's prudential rules and establish a risk sensitive approach to capital management which is comprised of three pillars:

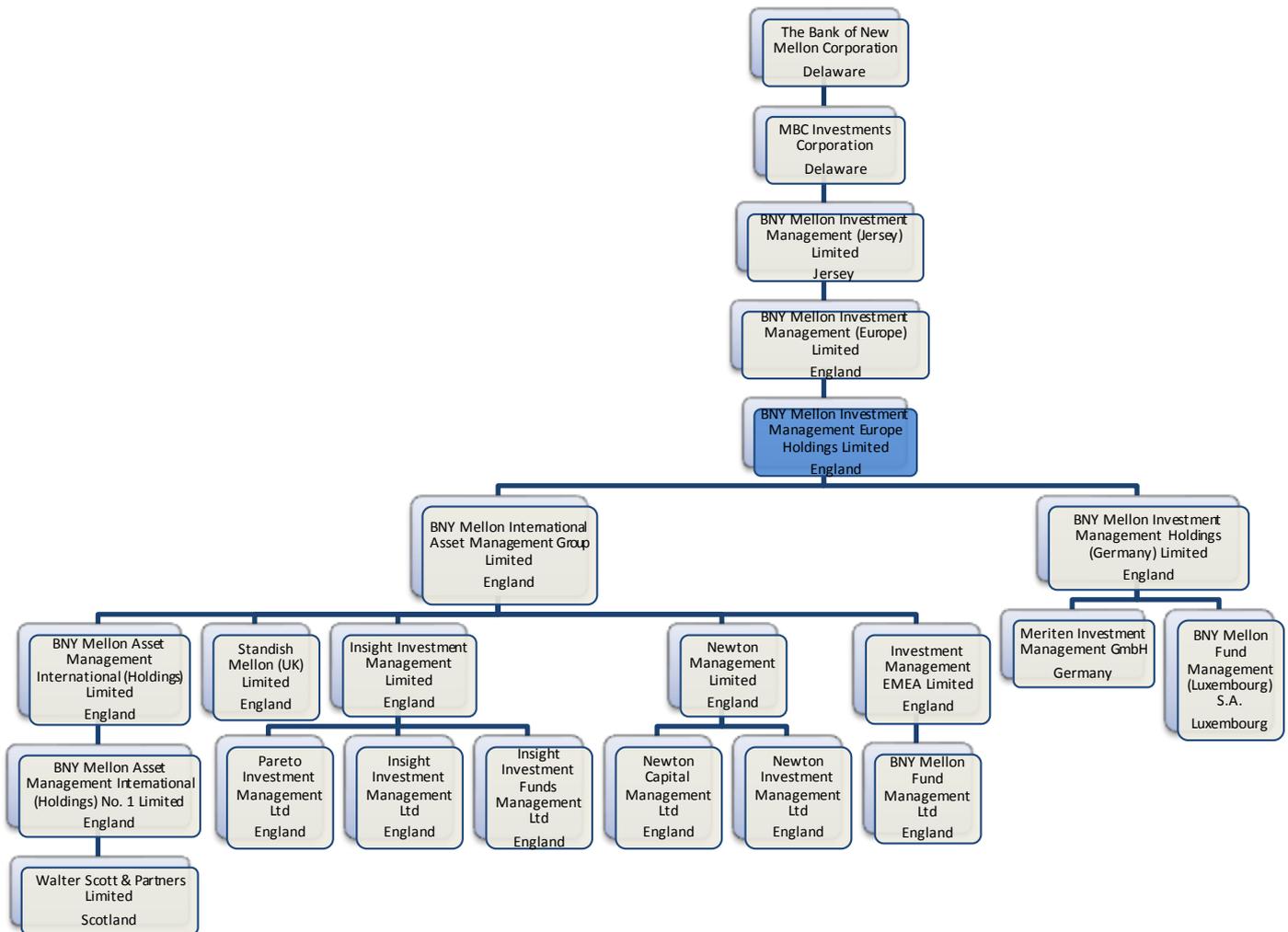
- **Pillar 1** establishes rules for the calculation of minimum capital for credit risk, market risk and The Fixed Overhead Requirement.
- **Pillar 2** is an internal discipline to evaluate the adequacy of the regulatory capital requirement under Pillar 1 and other non-Pillar 1 risks. This pillar requires the FCA to undertake a supervisory review to assess the robustness of IMEH's internal assessment and its capital requirements.
- **Pillar 3** complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to gauge the capital adequacy of individual financial institutions.

2. Scope and Application of Directive Requirements

BNY Mellon Investment Management Europe Holding Ltd is the parent company of a number of BNY Mellon-owned investment management businesses which are based in the UK, Germany and Luxembourg. All UK-based businesses are authorised and regulated by the FCA in their own right; the other businesses are subject to their local regulators: BaFin (Federal Financial Supervisory Authority) and CSSF (Commission de Surveillance du Secteur Financier) respectively. Whilst IMEH is the highest level legal entity in this structure two other holding companies sit beneath it: BNY Mellon International Asset Management Group Limited ('IAM') and BNY Mellon Investment Management Holdings (Germany) Limited. Both are wholly-owned subsidiaries of IMEH and their principal activity is to act as an investment holding companies and provide financing for underlying subsidiaries. They collect dividends from their subsidiaries and facilitate movement of capital between entities in the IMEH group.

The corporate structure of IMEH group is illustrated in Figure 1.

Figure 1: IMEH corporate structure



IMEH operates a 'multi-boutique' asset management model. Under this model each of the regulated Investment Management Boutiques operates with a significant degree of operational autonomy. The strategy of the various subsidiaries is decided by their individual boards. Through the appointment of BNYM senior management to the Boards, the BNYM group have input into and oversight of the ongoing development and assessment of that strategy.

The following regulated entities ('Boutiques') are subsidiaries as of 31st December 2014:

- BNY Mellon Investment Management EMEA Limited
- BNY Mellon Fund Management Limited
- Insight Investment Management Limited, comprising Insight Investment Management Limited, Insight Investment Funds Management Limited, and Pareto Investment Management Limited
- Newton Management Limited, comprising Newton Investment Management Limited and Newton Capital Management Limited
- Standish Mellon Asset Management (UK) Limited
- Walter Scott & Partners Limited
- Meriten Investment Management GmbH
- BNY Mellon Fund Management (Luxembourg) S.A.

3. Risk Management Objectives and Policies

3.1 Risk Management Framework

Each of the Boutiques is operated as a discrete entity and the Board and executive team members have a high degree of knowledge about their business and are very close to the day-to-day risk management and other associated issues such as trading, compliance and staff management. The regulated Boutiques' Boards have primary responsibility for both the management and the oversight of risks together with the quality and effectiveness of risk management, compliance and regulatory frameworks in their firms. They meet at least on a quarterly basis and consider reports and issues escalated by the delegated groups and committees within their business. In the case of Insight and Newton, each has appointed Independent Non-Executive Directors to the Boards of the Regulated entities.

Risk Management culture is centred on the Three Lines of Defence (figure 2). Within the EMEA Investment Management business, the EMEA and LatAm Head of Risk and Compliance Investment Management oversees the management of risk through Risk Managers operating in the Boutiques.

Figure 2: Three Lines of Defence



3rd Internal Audit

- Independent from first two lines of defence
- Conducts risk-based audits
- Reports on the company's effectiveness in identifying and controlling risks

2nd Risk and Compliance

- Independent oversight and monitoring
- Consistent corporate level policies and standards
- Reliable and timely enterprise-wide reporting
- Issues escalated in a timely fashion
- Includes Corporate Security, Business Continuity, Financial Management and Analysis within Finance, HR and Legal

1st Business/Legal Entities

- Own risks associated with activities
- Each employee understands and manages the risks inherent in their jobs
- Controls and sound business level policies are in place
- Operate within their 'Risk Appetite'
- Issue escalated in a timely fashion
- Includes risks owned primarily by business partners

3.2 Scope and Nature of Risk Reporting Systems

BNYM Investment Management is a global business with global oversight arrangements. The Global Investment Management Risk Committee (IMRC) meets monthly in New York. The IMRC is chaired jointly by Curtis Arledge and Mitchell Harris and the membership includes representatives from each of the BNYM IM regions. The IMRC is responsible for the management of risk across the entire IM business. The IMRC has set a risk appetite for the Global Investment Management business and each Boutique has established its own risk appetite within the overall global tolerance and framework. Risk metrics exist at every level of the stated risk appetite to ensure and report, both at a Boutique level and globally, that risks are being managed with agreed limits.

All Boutiques have a Risk & Compliance Committee. These meet at least quarterly, but in practice tend to be monthly, and commonly comprise risk & compliance, business line management, finance and representatives from Central Risk, Compliance, Audit and Legal. Escalation guidelines exist to ensure appropriate escalation. In addition, depending on the size and business activities, some Boutiques have senior management, investment, credit and other committees.

Notwithstanding the autonomy and responsibility of the individual Boutiques, each of them adopts a common overall risk framework in line with global BNYM policy standards. This helps to ensure thoroughness of risk management activities, consistency of approach, and commonality in escalation to the IMRC. The elements of the risk management framework are:

3.2.1 Risk Appetite Statement (RAS)

An overarching RAS has been prepared at the Global Investment Management business level. Each business has and maintains a local RAS which typically forms a sub-set of the global IM RAS but may include more granular detail in areas specific to the business. The IM RAS must be pre-approved at the IMRC.

3.2.2 Risk and Control Self-Assessment

Each business assesses the risks associated with its key business processes. Detailed process driven risk assessments consider all factors of the operation of each business. Assessments consider the frequency and severity of operational losses, performance of key risk indicators, emerging risks, audit and regulatory findings. In the event a control is deemed as 'Less than Satisfactory' or 'Needs Improvement' the risk owner or their designee documents a description of the Control Gap and Action Plan to close the gap within the Risk Management Platform.

3.2.3 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 which relate directly to key risks identified in the RAS. 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.

3.2.4 Operational Risk Events

Significant events of \$10k or greater must be recorded on the Risk Management Platform as soon as practicable but within 30 calendar days of detection. Sector Operational Risk Managers may grant an extension of an additional 30 days at their discretion. Significant Events greater than USD \$50,000 must be elevated and reported to Senior Management within 5 calendar days of detection and include the best available information at that point in time. Business managers are encouraged to enter 'Near Misses' as a best practice.

3.2.5 High Level Assessment

On a quarterly basis Risk Management provides a high level risk assessment, which provides a qualitative assessment of the inherent risk, quality of control, residual risk and direction of risk for Operational Risk Basel loss type categories and certain sub-type categories.

3.2.6 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.

3.2.7 Stress Testing

Stress testing is performed at the IMEH Consolidated level to ensure consistency, and supplemented by boutique level stress testing to deal with any idiosyncratic risks. The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration. 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 IMEH's and boutique legal entity boards for boutique level tests.

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.

4. Key Risk Areas

4.1 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.

Assets subject to credit risk for the IMEH group typically comprise deposits and group undertakings with BNY Mellon London Branch, deposits with external banks and fee receivables from clients. Cash deposits, typically the Boutique's accumulated profits, are held under a variety of arrangements including deposits with Bank of New York Mellon (London Branch). However, each Boutique holds a liquidity buffer equivalent to at least twice the calculated Fixed Overhead Requirements (FOR), calculated under FCA Rules, outside the BNY Mellon Group – insulated from the risk of BNY Mellon failure.

4.1.1 Credit Risk Exposure

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

i) Standardised gross credit exposure

The following table summarises the standardised gross credit exposure by class as at 31 December 2014.

Table 1: Standardised gross credit exposure by exposure class

Standardised gross credit exposure by exposure class (£000s)	Exposure at Default (EAD) pre Credit Risk Mitigation (CRM)		Average EAD pre CRM		Standardised Credit Risk Capital Requirement	
	2014	2013	2014	2013	2014	2013
Central Governments and Central Banks	50,756	-	43,332	-	0	-
Institutions	1,142,880	1,197,000	1,178,555	1,106,648	18,472	19,152
Corporates	560,330	251,348	525,924	259,232	47,781	18,547
Short term claims on Institutions and Corporates	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-
Other	120,109	393,152	93,609	462,613	13,677	29,160
Total	1,874,076	1,841,499	1,841,420	1,828,493	79,930	66,859

ii) Standardised gross credit exposure by industry sector¹

The following table summarises the standardised gross credit exposure by industry sector as at 31 December 2014

Table 2: Standardised Credit Exposures by Credit Quality Step

Standardised Pre-mitigated Credit Exposures by Credit Quality Step (£000s)	Central Governments and Central Banks		Institutions: Maturity <= 3m		Institutions: Maturity > 3m		Corporates		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
1	50,756	-	1,142,880	1,197,000	-	-	-	-	109	-	1,193,745	1,197,000
2	-	-	-	-	-	-	-	-	-	-	0	0
3	-	-	-	-	-	-	-	-	-	-	0	0
4	-	-	-	-	-	-	560,330	-	86,025	-	646,355	0
5	-	-	-	-	-	-	-	-	-	-	0	0
6	-	-	-	-	-	-	-	644,499	33,975	-	33,975	644,499
Total	50,756	0	1,142,880	1,197,000	0	0	560,330	644,499	120,109	0	1,874,076	1,841,499

iii) Standardised gross credit exposure by geographical area²

The following table summarises the standardised gross credit exposure by geographic area as at 31 December 2014

Table 3: Standardised gross credit exposure by geographic area

Standardised exposure classes (£000s)	Europe		Americas		Africa		Asia Pacific		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Central Governments and Central Banks	-	-	-	-	-	-	-	-	0	0
Institutions	18,455	19,123	11	29	-	-	6	-	18,472	19,152
Corporates	45,828	15,897	1,606	2,156	-	-	346	494	47,781	18,547
Short term claims on Institutions and Corporates	-	-	-	-	-	-	-	-	0	0
Collective Investment Undertakings	-	-	-	-	-	-	-	-	0	0
Other	13,677	29,160	-	-	-	-	-	-	13,677	29,160
Total	77,960	64,180	1,617	2,185	0	0	353	494	79,930	66,859

iv) Standardised gross credit exposure by residual maturity

The following table summarises the standardised gross credit exposure by residual maturity as at 31 December 2014

Table 4: Standardised gross credit exposure by residual maturity

Standardised gross credit exposure by residual maturity (£000s)	Less than 3 months		3 months to 1 year		Over 1 year or undefined		Total	
	2014	2013	2014	2013	2014	2012	2014	2013
Central Governments and Central Banks	50,756	-	-	-	-	-	50,756	0
Institutions	1,142,880	1,197,000	-	-	-	-	1,142,880	1,197,000
Corporates	560,330	251,348	-	-	-	-	560,330	251,348
Short term claims on Institutions and Corporates	-	-	-	-	-	-	0	0
Collective Investment Undertakings	-	-	-	-	-	-	0	0
Other	-	-	120,109	393,152	-	-	120,109	393,152
Total	1,753,966	1,448,348	120,109	393,152	0	0	1,874,076	1,841,499

¹ Standardised pre-mitigated credit exposure by Credit Quality Step as per BIPRU 11.5.10.5. IMEH does not utilise any credit risk mitigation models.

² Geographic distribution is based on the domicile of the borrower or obligor.

4.1.2 Past-Due assets and Provisions

As at December 31, 2014, IMEH or any of the underlying boutiques had no material assets past due greater than 90 days. Neither IMEH nor any of the underlying Boutiques incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year to December 31, 2014.

4.1.3 Capital Resource Requirement

Pillar 1 credit risk capital is calculated using the Standardised Approach. This approach takes capital requirements at 8% of the total of its credit risk weighted assets for exposures falling into asset categories as defined in BIPRU 3.1.6R. External Credit Assessment Institutions' ratings are used to determine the risk weight for each exposure category.

4.2 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.

The IMEH group computes counterparty credit risk capital at Pillar 1 using the Counterparty Credit Risk (CCR) mark-to-market method as per the FSA's BIPRU 13.4. As at 31 December 2014, BNY Mellon Investment Management Europe Holdings Limited had neither trading book nor a banking book and therefore had no counterparty credit risk.

4.3 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.

None of the regulated entities are authorised to trade on their own account or to underwrite issues of financial instruments. Market risk capital arises due to non-trading exposures in non-functional currencies, and when investments in equities and in collective investment undertakings (CIU) are held to launch new products or as investments (e.g. holdings in cash funds). These are accounted for at their market value.

4.3.1 Capital Resource Requirement

The consolidated FX Position Risk Requirement (PRR) has been calculated using the Standardised Approach for computing its FX Position Risk requirement (FX PRR). The FX PRR is calculated by aggregating the net long or short position per currency. 8% of the GBP value of the higher of the net long or net short position is held as capital for FX PRR.

4.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events (including 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.

Across the IMEH group the level of operational risk is managed through rigorous operating policies, procedures and controls set by the Boutiques' Boards and implemented by Risk Management.

Business Managers in each Boutique 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 Business Management. The Risk Management teams have an independent oversight role in this process.

The Boutiques' Boards monitor operational risks and the appropriateness of controls through the RMC and independent reporting from Risk Managers. This requires the Boutiques to regularly update their 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.

4.4.1 Capital Resource Requirement

All regulated entities in the IMEH group are limited licence firms and calculate their pillar 1 capital resource requirements (CRR) as the larger of Fixed Overhead Requirement (FOR) or the sum of credit risk and market risk capital resource requirements.

4.5 Liquidity Risk

Liquidity Risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The IMEH group currently has sufficient cash and current assets to meet its liabilities when they fall due; current and projected cash deposits are able to cover current liabilities and long term liabilities. Management fees provide the major source of funds with payment of staff and administrative expenses the principal uses of funds.

Net operating cash flows are projected to be positive and no financing requirements are anticipated. There is minimal risk to the source and use of the funds as there are no deposit-taking activities or loans to clients, and there are no derivatives or off-balance sheet exposures apart from FX forward contracts or other hedges for risk management purposes. Other exceptional activities such as acquisitions are funded either through existing cash resources or from the BNY Mellon group through debt and/or equity.

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

IMEH group entities establish processes and procedures to ensure compliance with applicable laws, regulations, policies, procedures and the Code of Conduct. There is a dedicated Chief Compliance Officer within each boutique who has dual reporting lines to the boutique senior management and the BNYM regional Head of Risk and Compliance. 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.

Evidence in the group's history of losses indicates that this level of risk is very low.

4.7 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. Business risk could also arise from exposure to a wide range of macro-economic, geopolitical, industry, regulatory, client behaviour, inappropriate management actions, and other external risks that might deflect from desired strategy and business plans. Business Risk is primarily tested with the Stress tests described in 3.2.6.

4.8 Outsourcing Risk

Outsourcing risk is the risk of 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.

Investment Management businesses that form IMEH group rely on internal and external outsourcing entities within and outside of the BNYM group to perform its core business activities on a continuing basis.

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

4.9 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 appear 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).

The greatest source of concentration risk for the IMEH group arises from the credit concentration risk to its parent BNY Mellon, through the concentration of deposits with BNY Mellon's London Branch as discussed in Group Risk.

4.10 Group Risk

Group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial and non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group, for example reputation contagion, parent default.

IMEH group is potentially exposed to risks carried through its parent, BNY Mellon, other BNY Mellon affiliates, and the Investment Management group including its subsidiary Boutiques. However, experience from previous reputational issues at the parent company and in associated businesses, from which IMEH group has been unable to identify resulting lost business or lost revenue relating to these issues, indicates limited contagion risk.

Furthermore, as described in 4.1., 6 months operating liquidity is held outside of the BNYM group by each boutique.

4.11 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.

IMEH group does not have a significant exposure to IRR although it continues to monitor through the financial control framework which will identify any change in the exposure.

4.12 Legal Risk

Legal risk is the risk associated with the risk of loss (including litigation costs and settlements) resulting from the failure of adherence to laws, regulations, prudent ethical standards, and contractual obligations in any aspect of BNY Mellon's business. If these were to materialise, legal risk incidents could damage the reputation or brand of BNY Mellon entities, which will ultimately lead to loss of clients and/or outflow of funds under management. IMEH group entities reduce their 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.

4.13 Model Risk

Across the IMEH group model risk refers to the possibility of unintended investment or business outcomes arising from the design, implementation or use of models.

The Investment Management Boutiques use models both as a complement to a qualitative investment or business judgment, or as the primary drivers of investment decisions. 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.

4.14 Pension Obligation Risk

Pension Obligation Risk is the risk to a firm caused by its contractual liabilities or legal obligations to a company's staff pension schemes.

Apart from some longer serving employees of IM-EMEA and Newton Group, no employees from other IMEH group subsidiaries are members of a Defined Benefit (DB) Scheme.

IM-EMEA and Newton group historically participated in the Mellon Retirement Benefit Plan (MRBP), a multi-employer DB arrangement. There are a number of other current and past employers that have participated in this arrangement. The MRBP has never sectionalised or segregated the asset and liabilities attributable to each of the various employers. IM-EMEA and Newton group participants together represent about 4% of the active MRBP membership.

It has never been possible to allocate the assets and liabilities of the employers on a consistent and reasonable basis. Therefore each individual entity's accounting liability has been recorded on a Defined Contribution (cash contributions) approach, as is allowable under the relevant accounting requirements (UK GAAP (FS17) and US GAAP) in such circumstances.

4.15 Reputation Risk

Reputational risk is the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators.

In addition to the reputational contagion risk discussed in Group Risk, reputational risk to the Asset Management brand will present itself as a loss of confidence by its clients. Consistent poor performance over a period of time, operational events that occur without appropriate remedy and are perceived by clients to be systemic weaknesses in controls, or a loss of key investment managers are all possible reasons for a loss of confidence. It is recognised that IMEH does not conduct any operational activity to generate risks in its own right; therefore the risk is that such situations could occur within the Boutiques.

4.16 Strategic and Country Risk

4.16.1 Strategic Risk

Strategic risk arises from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible and they include communication channels, operation systems, delivery networks, managerial capacities and capabilities. The organisation's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory and other environmental changes.

4.16.2 Country Risk

Country Risk is the risk of unfavourable evolution of operating profits and/or value of assets due to changes in the business environment resulting from political or macroeconomic factors. IMEH does not have any direct country risk.

4.17 Settlement Risk

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

As the Investment Management businesses within IMEH are all agency businesses operating on a limited license basis, settlement risk is limited to the small amount of hedging activity that the boutiques undertake.

4.18 Non-trading book exposures in equities

IMEH did not have any non-trading book exposures in equities as at December 31, 2014.

5. Capital Resources

5.1 Available Capital Resources

The following table summarises the capital resources for IMEH as at 31 December 2014. The summary Pillar 1 capital requirements are presented by exposure class, and the associated capital surplus and capital adequacy ratio.

Table 5: Capital resources

As at 31 December Capital Resources (£000s)	IMEH	
	2014	2013
Tier 1 Capital		
Called up Share Capital	2,555,030	2,555,030
Retained Earnings and other Reserves	149,942	-60,000
Total Tier 1 Capital	2,704,972	2,495,030
Deductions from Tier 1 Capital		
Intangible Assets	-1,334,839	-1,408,316
Total Tier 1 Capital after deductions	1,370,134	1,086,714
Tier 2 Capital		
Lower Tier 2 Capital		
Deated subordinated debt	0	0
Total Tier 2 Capital	0	0
Deductions from total of tiers 1 and 2 capital		
Material Holdings	-96,040	-7,951
Total Deductions from total of tiers 1 and 2 capital	-96,040	-7,951
Total Capital Resources	1,274,093	1,078,763

5.2 Risk Weighted Assets

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

Table 6: Risk Weighted Assets by risk type

As at 31 December Risk Weighted Assets (RWAs) by risk type (£000s)	IMEH	
	2014	2013
Credit Risk	999,123	835,737
Operational Risk	0	0
Market Risk	394,385	88,910
Total RWAs	1,393,508	924,647

6. Capital Requirements

The following table details the Pillar 1 capital requirements by exposure class for IMEH as at 31 December 2014.

Table 7: Capital requirements by risk type

As at 31 December Capital Requirements and Adequacy (£000s)	IMEH	
	2014	2013
Credit Risk Standardised Approach		
Central Governments and Central Banks	-	-
Institutions	18,472	19,152
Corporates	47,781	18,547
Short term claims on Institutions and Corporates	-	-
Collective Investment Undertakings	-	-
Other	13,677	29,160
Total Credit Risk capital requirement	79,930	66,859
Operational Risk - standardised approach	-	-
Market Risk		
Foreign currency Position Risk Requirement	31,551	7,113
Total Market Risk capital requirement	31,551	7,113
Total Market Risk and Credit Risk requirement	111,481	73,972
Fixed Overhead Requirement	116,051	101,643
Total Capital Requirement	116,051	101,643
Total Capital Resources	1,274,093	1,078,763
Capital surplus	1,158,042	977,120
Total Capital Resources / Total Pillar 1 Capital Requirements	1098%	1061%

7. Remuneration Disclosure

7.1 Governance

Subject to its charter, 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. During 2014, the HRCC met 8 times.

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 (Europe, Middle-East and Africa) region, the EMEA Remuneration Governance Committee (ERGC) was set-up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses, including BNY Mellon Investment Management Europe Holdings Limited ("IMEH"). The Board of each Investment Management Boutique in the IMEH group is responsible for any remuneration policy decisions and the approval of year-end compensation awards for their respective regulated staff members with frameworks approved at COC and HRCC.

7.2 Aligning pay with performance

BNY Mellon's compensation philosophy is to offer a total compensation opportunity that supports our values: client focus, integrity, teamwork and excellence. 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. Our compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. We aim to ensure that both fixed and variable compensation are consistent with business and market practice, fixed compensation is sufficient to provide for a fully flexible compensation program, and variable compensation is in the form of annual and/or long-term incentives, where appropriate.

7.3 Remuneration components: Fixed remuneration

Fixed remuneration is composed of (i) salary, (ii) any additional non-performance related amounts paid as a result of contractual obligations or applicable law, or as a result of market practice, including role based allowances, 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.

7.4 Variable compensation funding and risk adjustment

The staff of each Investment Management Boutique in the IMEH group 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 incentive pool funding is based upon the risk adjusted performance of the business line, entity or company as appropriate.

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 BNY Mellon restricted stock units, deferred cash award invested in an appropriate vehicle which is considered suitable, boutique equity or any combination determined appropriate from time to time.

Furthermore, BNY Mellon requires employees who receive awards to agree to clawback and/or forfeiture provisions on such awards in the event of fraud, misconduct or actions contributing to financial restatement or other irregularities. Where required by regulations, awards to Material Risk Takers are subject to more stringent risk adjustment, potentially including forfeiture and / or clawback in the case of misbehaviour, material error, material downturn in business unit performance or a material failure of risk management.

7.5 Deferral policy and vesting criteria

For more senior-level employees, a portion of variable compensation will be deferred, under ordinary circumstances for a period of at least three years (albeit such compensation may be deferred on a pro rata basis for alternative periods), and will be subject to the performance of either (or both) the company or the respective business. The deferred component of the variable compensation award is generally delivered in the form of BNYM restricted stock Units, deferred cash award invested in an appropriate vehicle which is considered suitable, boutique equity or any combination together determined appropriate from time to time. The percentage of the variable compensation award to be deferred depends on the level of the position, regulatory requirements 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.

7.6 Variable remuneration of control function staff

The variable compensation awarded to control function staff (e.g. audit, legal and risk) is dependent on performance which is assessed according to the achievement of objectives specific to their functional role which is independent of the activities they oversee. There is no formulaic line between the remuneration of control function staff and the business performance other than to the extent that any deferred awards are made in company equity programs.

7.7 Quantitative Remuneration Disclosure

The tables below provide details of the aggregate remuneration of Material Risk Takers for each Investment Management Boutique in the IMEH group for the year ending 31 December 2014.

For completeness, this group of staff is limited to those considered to be primarily regulated due to their activities under each Investment Management Boutique in the IMEH group. The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of each Investment Management Boutique in the IMEH group, to reflect the full reporting period.

Table 1: Aggregate remuneration expenditure for Material Risk Takers in 2014 by business (£000s)

	IMEH		
	Investment Management	Other ^(*)	Total
Total Remuneration ^(**)	81,803	6,374	88,177

(*) Includes all support functions and general management positions.

(**) Includes base salary and other cash allowances, plus any cash incentive and the total of any deferred awards made in BNY Mellon shares or specific vehicles employed by the Investment Management Boutiques in the IMEH group, valued at the date of grant.

Table 2: Aggregate remuneration expenditure for Material Risk Takers relating to 2014 by remuneration type

	IMEH		
	Senior Management ^(*)	Other Material Risk Takers	Total
Number of beneficiaries	38	90	128
	£000s	£000s	£000s
Fixed Remuneration	6,464	9,601	16,065
Variable Remuneration	40,520	31,592	72,112

(*) Senior Management is comprised of MRTs identified under Article 3.3 of the EBA RTS for identifying MRTs. Consisting of Directors, other Significant Influence Functions and those holding the corporate title of Executive Vice President.

Other employees who could be considered to be Material Risk Takers for 2014 for some of their activities under IMEH group entities, but who are primarily regulated in respect of a different entity have been excluded from the data displayed in the tables above. These remuneration expenditures are included on an aggregate basis in the Pillar 3 remuneration disclosures for the respective BNY Mellon legal entities.

8. Glossary of Terms

The following terms are used in this document:

- **Basel II:** The June 2006 capital adequacy framework issued by the Basel Committee on Banking Supervision in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
- **BIPRU:** The FCA rules, as set out in Prudential Sourcebook for Banks, Building Societies and Investment Firms.
- **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.
- **FCA:** The Financial Conduct Authority of the United Kingdom
- **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.
- **Limited Licence Firms:** Limited licence firms are not authorised to (i) deal on their own account; or (ii) provide investment services such as underwriting or placing of financial instruments on a firm commitment basis.
- **MRT:** Material Risk Taker as defined by the European Banking Authority Final Regulatory Technical Standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU ("CRD IV").
- **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.
- **Tier 1 And Tier 1 Capital:** Have the meanings given to such terms in the General Prudential Sourcebook (as set out in the FCA's Handbook).
- **Tier 2 Capital:** Has the meaning given to this term in the General Prudential Sourcebook (as set out in the FCA's Handbook).

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