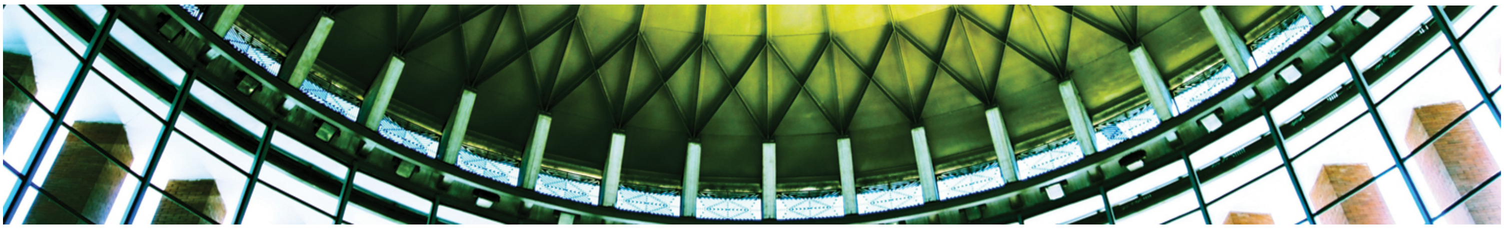
BNY MELLON



Mellon International Holdings S.à.r.l.

Pillar 3 Disclosures as at 31st December 2012

Contents

Pillar 3 Disclosure

The Investment Management Association's Pillar 3 working party, comprised of a number of industry members has published guidelines for preparation of Pillar 3 disclosures to better align content, definitions and approaches and to drive comparability and consistency wherever possible. These disclosures have been produced with reference to the outcome of this Working Party. Where necessary, footnotes have been added to the data tables to explain content. However, whilst disclosures are intended to provide transparent information on a common basis, different assumptions may apply to other Investment managers especially outside the UK so a reader must understand the basis of each firm's disclosures before making comparisons.

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, there is currently no comparable disclosure provided on a consolidated basis by the firm's parent undertaking. As such, this disclosure has been prepared for Mellon International Holdings S.A.R.L. and its regulated UK subsidiaries.

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

Information in this report has been prepared solely to meet the disclosure requirements about Basel II and to provide certain specified information about capital and other risks, and details about the management of those risks and for no other purpose. This paper does not constitute any form of financial statement on the business nor does it constitute any form of contemporary or forward looking record or opinion about the business.

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

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

The BOD 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 BOD 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 BOD will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure and will publish more general information about the subject matter of the disclosure requirement except where these are to be classified as confidential.

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.

Disclosures will be published on The Bank of New York Mellon group website (www.bnymellon.com).

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

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

1 Introduction

These disclosures relate to Mellon International Holdings S.A.R.L. ('MIH') and are published in accordance with the requirements of the Financial Services Authority ('FSA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3). Pillar 3 disclosures are made in respect of Mellon International Holdings S.A.R.L. and its subsidiary undertakings (together the 'group').

The MIH group forms the international (i.e. non-US) 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 the ongoing development and assessment of that strategy.

The Board of Directors approved publication of these disclosures in July 2013.

1.1 Purpose

Basel II is the international banking accord intended to strengthen the measurement and monitoring of financial institutions' capital. The Basel II framework was implemented in the EU through the Capital Requirements Directive (CRD).

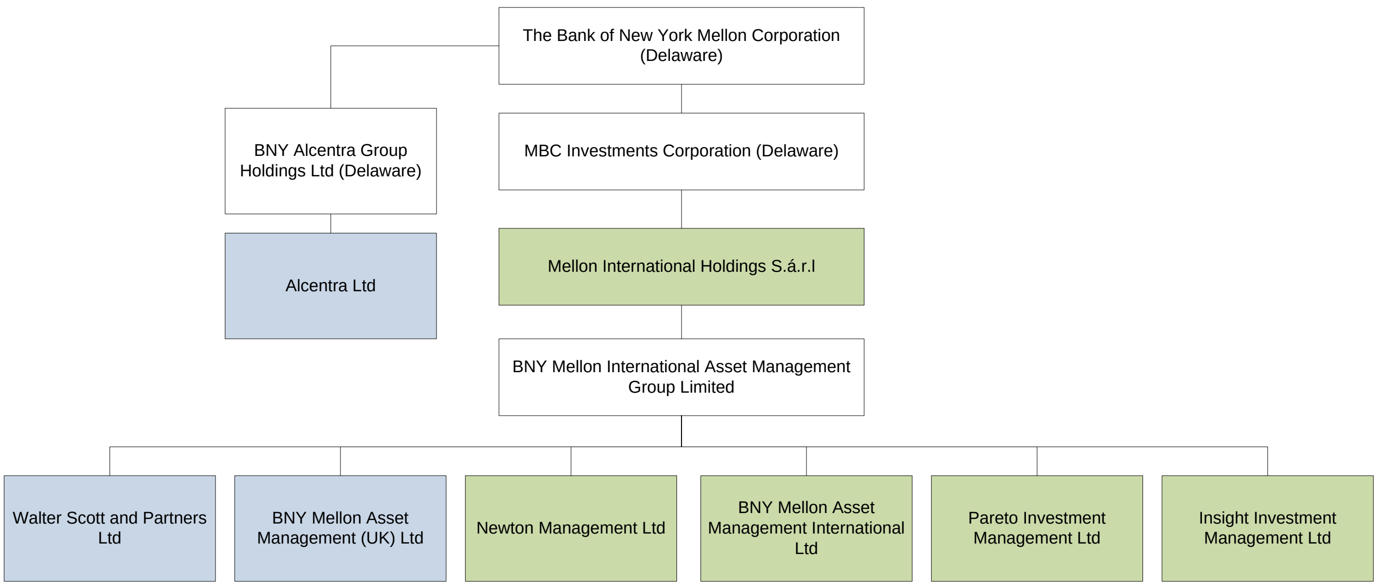
The Basel II framework establishes a more risk sensitive approach to capital management and is comprised of three pillars:

- Pillar 1 establishes rules for the calculation of minimum capital for credit risk, market risk and 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 FSA to undertake a supervisory review to assess the robustness of MIH's internal assessment.
- 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 companies and to make comparison.

2 Scope and Application

MIH S.à.r.l and BNY Mellon International Asset Management Group Limited (IAM) are the parent companies of a number of BNY Mellon owned asset management businesses which are UK-based and each authorised and regulated by the FSA in their own right. The simplified corporate ownership structure of MIH is illustrated in Figure 1.

Figure 1: MIH corporate structure (as at 31 Dec 2012)



Boxes in green denote consolidated groups that have solo Limited Licence Investment Firms within them
Boxes in blue are solo Limited Licence Investment Firms

Alcentra is not a subsidiary of the regulated MIH S.à.r.l group but is part of the overall Asset Management business, therefore when referencing EMEA Asset Management in this document, it has been included. Whilst MIH S.à.r.l is the highest level legal entity in this structure, most of the governance and oversight takes place at and below IAM level. IAM is a wholly-owned subsidiary of MIH S.à.r.l. Its principal activity is to act as an investment holding company and provide financing for underlying subsidiaries, acquisitions and seed capital investments. It collects dividends from its subsidiaries and facilitates movement of capital between entities in the MIH S.à.r.l group. It earns revenues through its fixed investments and incurs business partner services expenses for the MIH S.à.r.l group that it recharges to the various subsidiaries.

The consolidation group is likely to change in 2013 with a consequence that the head of the Consolidation Group will be a UK domiciled Legal Entity. However, it is not anticipated that any such changes will otherwise materially affect the overall position as reflected in this statement.

3 Risk Management

3.1 Risk Governance Framework

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.

The existing organisational structure of the group headed by MIH S.à.r.l is a result of a number of acquisitions and tax considerations. The MIH S.à.r.l BOD delegates responsibility for carrying out these activities to the IAM BOD. The IAM BOD meets at least four times a year, The Asset Management Sub Committee (AMSC) meets on these occasions and meets a further four times throughout the year, with the CEOs of the Boutiques in attendance.

All Boutiques have a Business Risk Committee or Risk & Compliance Committee. These meet at least quarterly, but in practice tend to be monthly, and commonly have Risk & Compliance, Business Line Management, Finance and representatives from Central Risk, Compliance, Audit and Legal. Escalation guidelines exist to ensure appropriate escalation to the EMEA Asset Management Sub Committee and EMEA Risk & Compliance Committee as well as to the respective Boutique's boards.

In addition, depending on the size and business activities, some Boutiques have senior management, investment, credit and other committees. As well as at a legal entity and regional level, the risk management process operates at an Asset Management level globally.

In line with the corporate escalation procedure guidance, the risk management output from Boutiques' risk management committees is escalated and reported to the various levels of executive committees, which would generally be the EMEA Risk & Compliance Committee or the EMEA Asset Management Sub-Committee in accordance with agreed escalation guidelines.

3.2 Risk Appetite

The BNY Mellon Group BOD defines risk appetite as being "the level and type of risk a firm is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders".

All BNY Mellon subsidiaries have a responsibility through their respective boards to articulate and communicate a clear set of statements that define their appetite to risk. This process is undertaken in a manner that enables each legal entity to produce risk appetite metrics and a set of supporting tolerance levels that are appropriate for the business. All risk appetite and tolerance levels must be monitored and used to manage risk within the business.

The Risk Appetite Statement forms an integral part of the management of the business within the MIH S.à.r.l Group as described within the MIH S.à.r.l Management Framework document. The statement is developed in conjunction with Risk Management and the IAM Board and adopted, and overseen by the MIH S.à.r.l Board. The Risk Appetite of MIH S.à.r.l relates to the business undertaken by individual asset management boutiques in the EMEA region, including subsidiaries of IAM and Alcentra Limited.

3.3 Risk assessment tools

MIH S.à.r.l'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 EMEA Risk and Compliance Committee (EMEA R&C) monthly.

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.

3.3.1 Risk Controls Self-Assessment (RCSA)

The businesses each assess the risks associated with key business processes with inherent risks that are deemed to be 'Moderate', 'Moderate to High' or 'High'. Detailed risk assessments consider all factors of the line of business operating performance and risk profile. 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.

3.3.2 Key Risk Indicators

Each line of business within BNY Mellon maintains a group of key risk indicators (metrics) which are classified under the causal categories of Operational Risk (namely people, process, technology, legal/regulatory, external and risk management) which are applicable to the risks identified within the RCSA, and each is given a red, amber or green indicator. Where a metric triggers amber or red, the line of business is responsible for applying a narrative to explain the root cause, impact and actions to address the issues.

3.3.3 Operational Risk Events

Significant events of $10k or greater must be recorded on the Operational Risk Events 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. Business managers are encouraged to enter 'Near Misses' as a best practice.

3.3.4 High Level Assessment

On a quarterly basis Operational Risk Management provides a high level risk assessment to the IAM BOD, 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.

3.3.5 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 EMEA R&C. Top risks are also consolidated into the BNY Mellon top risk reporting process for reporting to regional risk committees.

3.3.6 Stress Testing

Stress testing is generally performed at Boutique level. The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to each boutique's individual risk profile. 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 each Boutique's Board.

3.3.7 Credit Risk Management

There is explicit management oversight of the credit quality of deposit institutions by individual Boutiques and the BNY Mellon Group, where limit levels are in place for large counterparties. The external bank deposits are used largely for operational purposes and there is sufficient care exercised by the various Boutiques in ensuring the quality of counterparty banks.

3.3.8 Market Risk Management

The foreign exchange (FX) balance sheet exposures are hedged on a monthly basis. The forward exchange contacts are placed with the value date on the last working day of the month; the offsetting contracts are placed two days before the maturity of the original contracts to stop delivery of the underlying notional contract value. The contracts are marked to market for regulatory reporting purposes.

3.4 Scope and nature of risk reporting systems

All of MIH group's activities are included in Basel II capital reporting (using credit and market risk standardised approach). Operational risk data is captured on an internally developed risk management platform.

The purpose of the company's risk measurement and reporting systems is to ensure that all risks and exposures are comprehensively captured, with all of the attributes necessary to support robust decision making by senior management and risk mitigation within approved risk appetite levels.

Risk measurement and reporting systems are subject to a robust governance framework, to ensure that their design is fit for purpose and that they are functioning properly and that controls are effective. Risk systems' development is a key responsibility of Group IT while the operation and development of risk rating and management systems and processes are subject to oversight by various levels of management up to the Board of Directors.

The measurement and monitoring of the major risks encountered by the company including operational risks, are increasingly delivered by a central platform or, where for sound business reasons this is not the case, through structures and processes that support comprehensive oversight by senior management.

There is regular reporting on risk to Business Line Management, to specialist functions and to the Senior Management of MIH S.à.r.l.

The principal risks to which MIH S.à.r.l is exposed to are detailed as follows:

3.5 Pillar 1 Risk Assessments for Internal Capital

3.5.1 Credit risk

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

Assets subject to credit risk for the MIH S.à.r.l group typically comprise deposits and group undertakings with BNY Mellon's 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 reflecting the history of each 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 FSA Rules) outside the BNY Mellon Group - insulated from the risk of BNY Mellon failure.

3.5.1.1 Credit risk exposure

Tables 1 - 4 summarise the credit exposure for MIH S.à.r.l group.

Table 1: Standardised gross credit exposure by class

As at 31st December	2012	2012	2011	2011
All figures in £000's	EAD pre CRM	Avg. EAD pre CRM	EAD pre CRM	Avg. EAD pre CRM
Institutions	772,405	777,169	736,904	698,465
Corporates	319,873	361,293	224,433	210,483
Other items	378,812	421,209	387,442	357,755
Total	**1,471,090**	**1,559,671**	**1,348,779**	**1,266,703**

Table 2: Standardised gross credit exposure by industry sector

Standardised exposure classes	Institutions		Corporates		Other items		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
As at 31st December	£000's		£000's		£000's		£000's	
Banks & Other financial	772,405	736,904	319,873	224,433	378,812	387,442	1,471,090	1,348,779
Total	**772,405**	**736,904**	**319,873**	**224,433**	**378,812**	**387,442**	**1,471,090**	**1,348,779**

Table 3: Standardised gross credit exposure by geographic area

Standardised exposure classes	Institutions		Corporates		Other items		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
As at 31st December	£000's		£000's		£000's		£000's	
Banks & Other financial	772,405	736,904	319,873	224,433	378,812	387,442	1,471,090	1,348,779
Total	**772,405**	**736,904**	**319,873**	**224,433**	**378,812**	**387,442**	**1,471,090**	**1,348,779**

Table 4: Standardised gross credit exposure by residual maturity

Standardised exposure classes	On demand		Up to 1 year		Group Total	
	2012	2011	2012	2011	2012	2011
As at 31st December	£000's		£000's		£000's	
Institutions	772,405	736,904			772,405	736,904
Corporates	319,873	224,433			319,873	224,433
Other items			378,812	387,442	378,812	387,442
Total	**1,092,277**		**378,812**		**1,471,090**	**1,348,778**

3.5.1.2 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.

3.5.1.3 Counterparty credit risk

Counterparty credit risk for the Group is the risk that a counterparty to a derivative contract could default before the settlement of the final cash flow.

The MIH S.à.r.l 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.

3.5.1.4 Credit Risk Standardised Approach

Credit exposure is computed under the Standardised Approach according to specified risk weights.

The Group uses external credit assessments provided by Fitch, Moody's, and Standard and Poor's to determine the risk weighting of exposures in its portfolios depending on counterparty type and coverage. Fitch is preferred for banks. Fitch, Moody's and Standard and Poor's are all recognised by the FSA as eligible External Credit Assessment Institutions (ECAIs) for the purpose of calculating credit risk requirements under the standardised approach.

All ECAI ratings for a counterparty are determined as soon as a relationship is established and these ratings are tracked and kept up to date. Ratings are subject to validation or amendment by a Credit Officer.

ECAI grades

The following credit quality steps are equivalent to the following ECAI grades:

Standardised exposure by Credit Quality Step

Disclosures (i & ii) relating to the MIH group are presented for the most significant exposure classes and reflect exposure value pre- and post-CRM associated with each credit quality step prescribed in BIPRU 3.

i. Institutions

As at 31st December 2012

Credit Quality Step	Risk weight %	EAD pre CRM £000's	EAD after CRM £000's
1	20%	772,405	772,405
2	50%		
3	100%		
4	100%		
5	150%		
6	150%		
Unrated	100%/150%		
Total		**772,405**	**772,405**

ii. Corporates

As at 31st December 2012

Credit Quality Step	Risk weight %	EAD pre CRM £000's	EAD after CRM £000's
1	20%		
2	50%		
3	100%		
4	100%		
5	150%		
6	150%		
Unrated	100%/150%	698,685	698,685
Total		**698,685**	**698,685**

3.5.2 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 on a firm commitment basis. 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), and are accounted for at their market value.

3.5.2.1 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.

3.5.3 Operational risk

Operational risk is the risk of loss resulting from people, systems, inadequate or failed internal processes or from external events (including legal risk but excluding strategic and reputational risk).

Operational risk may arise from errors in transaction processing, breaches of internal control systems and compliance requirements, internal or external fraud, damage to physical assets, and/or 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 as a consequence of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations.

3.5.3.1 Capital Resource Requirement

All regulated entities in the MIH S.à.r.l 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.

3.6 Other Risk Assessments for Internal Capital

3.6.1 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 MIH S.à.r.l 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. Financing cost (interest expense) is expected to stay at current levels. 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. Other exceptional activities such as acquisitions are funded either through existing cash resources or from the BNY Mellon group through debt and/or equity.

3.6.2 Business risk

Business risk is the risk of loss caused by unexpected changes in the external macro environment, client behaviour or events that impact earnings including contracting markets, reduced margins from competitive pressure, adverse customer selection, and business concentration.

Business risk could 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.

3.6.3 Concentration risk

The greatest source of concentration risk for the MIH S.à.r.l 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.

3.6.4 Group risk

Group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial or 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.

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

3.6.5 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.

MIH S.à.r.l 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.

3.6.6 Legal Risk

The BNY Mellon policy defines legal risk as the risk of loss (including litigation costs, settlements, and regulatory fines) resulting from the failure of compliance with 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.

3.6.7 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.

MIH S.à.r.l uses the Operational, Market and Credit Risk models for the quantification of Pillar 2 capital. The models are subject to the BNYM model risk management process, which includes model inventory/validation and the model risk assessment process. Governance for model risk is provided by the BNYM Credit and Operational Risk Measurement Committee (CORMC) and the Risk Quantification and Modelling Committee. CORMC oversees credit and operational risk model development, update and validation.

3.6.8 Pension obligation risk

Pension Obligation Risk is the risk to a firm caused by its contractual liabilities or moral obligations to pension scheme considerations.

Apart from some employees of AMIL and Newton group, no employees from other MIH S.à.r.l group subsidiaries are members of a Defined Benefit (DB) Scheme.

AMIL and Newton group participate in the Mellon Retirement Benefits Plan (MRBP), a multi-employer DB arrangement. There are a number of other current and past employers that have participated in this arrangement. The MBRP has never sectionalised or segregated the asset and liabilities attributable to each of the various employers. AMIL 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.

3.6.9 Reputation risk

Reputation 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 reputation contagion risk discussed in Group Risk, reputation 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, and a loss of key investment managers are all possible reasons for a loss of confidence. It is recognised that MIH S.à.r.l 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.

3.6.10 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 those 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, operating systems, delivery networks, and managerial capacities and capabilities. The organisation's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

3.6.11 Residual risk

Residual risk is the risk that risk mitigation techniques used by the firm prove less effective than expected. Usually it is the under or non performance of collateral.

The main occurrence of credit risk for the asset managers is the non payment of management and performance fees. As the MIH S.à.r.l group does not hold collateral to mitigate this, it is not exposed to residual risk. Although there is typically a right of set-off or lien over the assets of the fund in client contracts and investment management agreements, this has not been adopted by the MIH S.à.r.l group to date. All measures are taken to reach a mutually beneficial solution.

4 Capital adequacy

4.1 Capital Resources

During the year ended 31st December 2012, MIH S.à.r.l complied with all of the externally imposed capital requirements to which it was subject. Table 5 below summarises the composition of MIH S.à.r.l's regulatory capital as reported as at 31st December 2012.

Table 5: Capital resources

Capital resources (As at 31st December)	2012	2011
All figures in £000's		
Tier 1 capital		
Called up share capital	1,441,202	1,441,202
Retained earnings and other reserves	111,831	283,035
	1,553,033	**1,724,237**
Deductions from Tier 1 capital		
Intangible assets	-844,034	-903,681
Material holding	-78,693	-144,680
Total Tier 1 capital after deductions	**630,306**	**675,876**
Capital Requirements		
Credit Risk	68,262	60,742
Market Risk	3,916	3,080
Fixed Overhead Requirements	93,462	87,214
Total Pillar 1 Capital Requirements	**93,462**	**87,214**
Capital Surplus	536,844	588,662
Capital Adequacy Ratio	**674%**	**775%**

4.2 Capital requirements

The table below sets out the Pillar 1 capital requirements by exposure class for MIH S.à.r.l.

Table 6: Capital requirements

All figures in £000's	Capital Requirements		Exposure		Risk Weighted Assets	
Capital requirements - As at 31st December	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Credit risk						
Institutions	12,367	11,792	772,405	736,904	154,481	147,381
Corporates	25,590	17,955	319,873	224,433	319,873	224,433
Other Items	30,305	30,995	378,812	387,442	378,812	387,442
Total Credit Risk	**68,262**	**60,742**	**1,471,090**	**1,348,779**	**853,166**	**759,256**
Market risk						
Foreign currency Position Risk Requirement	3,916	3,080				
Fixed Overhead Requirement	**93,462**	**87,214**				
Total Pillar 1 Capital Requirements	**93,462**	**87,214**				
Capital Surplus	**536,844**	**588,662**				
Capital Adequacy Ratio	**674%**	**775%**				

5 Impaired and Past due assets and Provisions

MIH S.à.r.l. group does not make loans or advances to clients in the normal course of business.

As at 31st December 2012, MIH group had no significant impaired assets for which a provision had been raised (2011: nil). MIH group did not incur any significant write-offs of bad debts or make any recovery of amounts previously written off during the year to 31st December 2012 (2011: nil).

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation.

As at 31st December 2012, MIH group had no significant provisions for liabilities and charges (2011: nil).

6 Remuneration

6.1 Governance

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

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

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.

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 Mellon International Holdings S.à.r.l.

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.

6.3.1 Variable compensation funding and risk adjustment

The staff of Mellon International Holdings S.à.r.l 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 payouts 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.

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.

6.3.2 Deferral policy and vesting criteria

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

6.3.3 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 BNY Mellon's overall annual financial performance.

6.3.4 Quantitative Remuneration Disclosure

The tables below provide details of the aggregate remuneration of Code Staff for MIH S.à.r.l. in respect of 2012. Due to the designation of some of the underlying boutiques as Level 2 and others as Level 3, where appropriate, the disclosures have identified the split between the categorisations.

The remuneration amounts presented are derived from time spent by BNY Mellon staff in respect of MIH S.à.r.l. on a gross basis as well as direct employees. The disclosures therefore reflect the total aggregate amount of remuneration for all individuals who have a material impact on the risk profiles of MIH S.à.r.l. This is a change in methodology to prior years where remuneration was presented on a time apportioned basis.

Table 7: Proportionality Level 2 Code Staff

Aggregate remuneration expenditure for Code Staff in 2012 by business[1]	Investment Management £000s	Other[2] £000s	Total £000s
	9,522	2,844	12,366

1. Includes base salary and other cash allowances, plus any cash incentive and the total of any awards made in BNY Mellon shares or options, valued at the date of grant.
2. Includes all support functions and general management positions.

Aggregate remuneration expenditure for Code Staff in 2012 by remuneration type	Senior Management[2]	Other Code Staff	Total
Number of beneficiaries	-	10	10
Fixed remuneration (£000s)[1]	-	2,030	2,030
Variable remuneration (£000s)	-	10,335	10,335

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. Due to data confidentiality reasons, the information for Senior Management is disclosed on an aggregate basis with all Other Code Staff.

Table 8: Proportionality Level 3 Code Staff

Aggregate remuneration expenditure for Code Staff in 2012 by business[1]	Investment Management £000s	Other[2] £000s	Total £000s
	35,432	1,351	36,783

1. Includes base salary and other cash allowances, plus any cash incentive and the total of any awards made in BNY Mellon shares or options, valued at the date of grant.
2. Includes all support functions and general management positions.

Aggregate remuneration expenditure for Code Staff in 2012	Senior Management[1]	Other Code Staff	Total
Number of beneficiaries	-	32	32
Total remuneration (£000s)	-	36,783	36,783

1. 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 paper

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 FSA's rules, as set out in Prudential Sourcebook for Banks, Building Societies and Investment Firms.

CCF:

Credit Conversion Factor

CCR:

Counterparty Credit Risk

Core equity tier 1 capital:

Tier 1 capital less innovative tier 1 securities and preference shares.

CRD:

Capital Requirements Directive

Credit risk mitigation:

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.

Equity risk:

The risk arising from positions, either long or short, in equities or equity-based instruments, which create exposure to a change in the market price of the equities or equity instruments.

Expected loss (EL):

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

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 counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures.

Fair value:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FSA:

The Financial Services Authority of the United Kingdom.

IFRS:

International Financial Reporting Standards

Institutions:

Under the Standardised approach, Institutions are classified as credit institutions or investment firms.

ICAAP:

Internal Capital Adequacy Assessment Process (ICAAP) is 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.

Limited licence firms:

Limited licence firms under Basel II are not authorised to (i) deal on their own account; or (ii) provide investment services such as underwriting or placing financial instruments on a firm commitment basis.

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.

Securitisation:

A transaction or scheme whereby the credit risk associated with an exposure, or pool of exposures, is tranched and where payments to investors in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures. A traditional securitisation involves the transfer of the exposures being securitised to an SPE which issues securities. In a synthetic securitisation, the tranching is achieved by the use of credit derivatives and the exposures are not removed from the balance sheet of the originator.

Standardised approach:

In relation to credit risk, a method for calculating credit risk capital requirements using ECAI 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 FSA's Handbook).

Tier 2 capital:

Has the meaning given to this term in the General Prudential Sourcebook (as set out in the FSA's Handbook).

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