Pershing Holdings (UK) Limited

2012 Pillar 3 Disclosures

About Pillar 3 Disclosures

Preparation and policy

The Board of Directors of Pershing Holdings (UK) Limited (PHUK) adopts this policy to comply with disclosure requirements and for assessing the appropriateness of the company's Pillar 3 market disclosures, including their verification and frequency.

Disclosures will be made annually based on the calendar year end and will be published as soon as possible after publication of the consolidated annual audited accounts. The company will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about its capital resources, adequacy, information about risk exposure and other items prone to rapid change.

Disclosures will be published on the BNY Mellon website (www.bnymellon.com) under investor relations and on the Pershing website (www.pershing.co.uk) under Financial and Regulatory Disclosures.

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

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

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

Pershing Holdings (UK) Limited

Pillar 3 disclosures for the year ended 31st December 2012

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1 Introduction

1.1 Purpose of Pillar 3

Basel II is the international banking accord intended to strengthen the measurement and monitoring of financial institutions' capital. The Basel II framework was implemented in the EU through the Capital Requirements Directive (CRD). The Basel II framework established a more risk sensitive approach to capital management and is comprised of three pillars:

- **Pillar 1** establishes rules for the calculation of minimum capital for Credit, Market and Operational Risk.

- **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 Financial Services Authority (FSA)[1] to undertake a supervisory review to assess the robustness of internal capital assessment.

- **Pillar 3** complements the other pillars and effects market discipline through public disclosures. Expanded disclosure about capital and risk enables interested parties to better understand the risk profile of individual firms and to make appropriate comparisons.

[1] Financial Conduct Authority (FCA) / Prudential Regulation Authority (PRA) as of 1st April 2013. This document references the FSA as it was the regulatory body as at 31st December 2012.

2 Scope and application of directive requirements

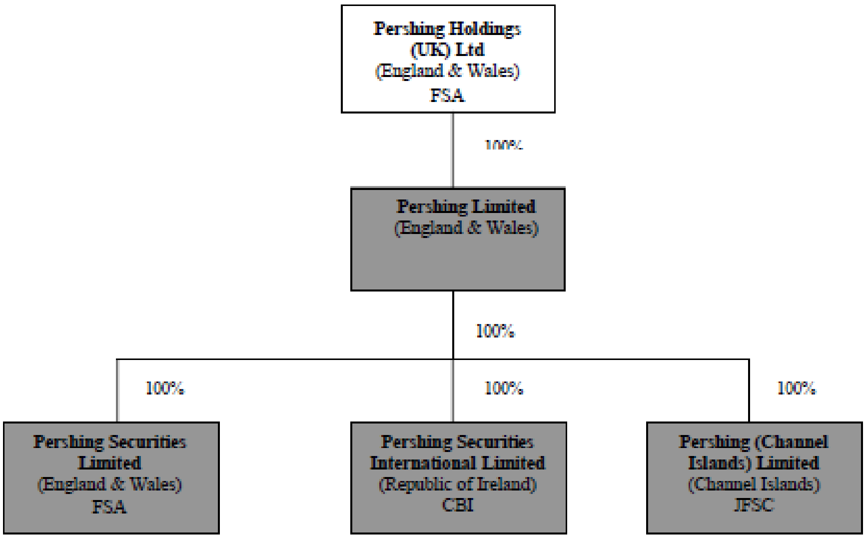
Pershing Holdings (UK) Limited is the UK based, wholly owned and operationally independent subsidiary of Pershing Group LLC which is, in turn, a subsidiary of the Bank of New York Mellon Corporation.

The primary business of Pershing is the provision of integrated execution, settlement, clearance and custodian services to both retail and institutional clients located largely in the UK, Ireland and the Channel Islands.

As a full scope BIPRU investment firm regulated by the FSA, Pershing Holdings (UK) Limited is required to comply with the FSA's Basel II rules, which includes this disclosure. The entities in the organisation chart below make up the Pershing Limited Consolidated group and are considered in this disclosure. Pershing Limited and Pershing Securities Limited are significant subsidiaries whose capital resources and requirements are disclosed in Sections 4 and 5.

Pershing (Channel Islands) Limited was established in 2011 and is regulated by the Jersey Financial Securities Commission. Additionally, Pershing Securities International Limited is governed by the Central Bank of Ireland whose Pillar 3 disclosures are published separately (www.pershing.i.e).

Figure 1: Organisational structure of PHUK



There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities between the parent undertaking and its subsidiary undertakings. The group does not make use of the solo consolidation waiver provisions laid down in BIPRU 2.1.

3 Risk management objectives and policies

3.1 Risk Management Framework

PHUK's approach to risk management is to ensure that all material risks are defined, understood and effectively managed according to well-designed policies and controls. The risk management processes developed by PHUK are designed to support the business in the management of the specific processes and activities undertaken by the Firm. The framework encompasses among others operational risk event escalation, key risk indicator analysis and reporting, the monitoring of risk appetite thresholds and tolerances, Risk & Control Self Assessments and quarterly attestations, scenario analysis and stress testing.

3.2 Risk Management Governance

Policies and procedures are in place to govern and manage the business, which are common to all BNY Mellon entities. Suitable policies and procedures have been adopted by Pershing in order to ensure that an appropriate level of risk management is directed at the relevant elements of the business.

The Pershing governance structure has various strategic businesses, functional and risk management committees integrated into the overall corporate structure. Independent risk management functions are also embedded within this corporate structure to support good corporate governance and management in fulfilling their responsibilities in managing the business.

The Pershing Board is the senior strategic and decision making body and it meets on a quarterly basis. The Board consists of both Executive and Non-Executive members. Non-Executive members are employees of Pershing Group LLC and BNY Mellon. The Pershing Board is responsible for the ongoing success and development of the Pershing business.

The Board has delegated day-to-day responsibility to the Pershing Executive Committee (Executive Committee) which includes management oversight of the Risk Management Framework. The Executive Committee has further delegated ongoing oversight of risk management to the Pershing Risk Committee.

The Pershing Risk Committee (PRC), which was formed by the Executive Committee, provides oversight of all risk types that could potentially impact the achievement of PHUK's business objectives. All risk and control committees and forums (Operational, Credit and Market) report to the PRC to provide a consolidated escalation point for risk reporting and escalation. The PRC presents a consolidated risk report to the Executive Committee on a monthly basis.

The EMEA Investment Services Risk & Compliance Committee (EISRCC) aims to meet monthly and at a minimum ten times a year and is chaired by the International Compliance Director. The membership consists of representatives from Risk Committees across EMEA legal entities, business groups and countries, and is a point of convergence for the Risk Committees. The Committee's main purpose is to receive, review and discuss risk and compliance matters relevant to legal entities, business partners and business groups within EMEA Investment Services, and to assess the regional impact.

EMEA Senior Risk Management Committee (ESRMC) brings together items from both the Investment Services and Investment Management Risk & Compliance Committees to consider risks from all business lines within EMEA.

To provide adequate, dual oversight in EMEA, BNY Mellon has integrated an EMEA Executive Committee into the governance structure. This committee consists of senior managers across the businesses and shared services within EMEA. One of its responsibilities is to monitor significant governance, regulatory, audit and risk issues to ensure that they are brought to an appropriate conclusion.

3.3 Scope and nature of risk reporting systems

The purpose of the Firm's risk measurement and reporting processes are to ensure that all identified risks and exposures are comprehensively captured, assessed and reported to enable them to be managed according to the overall risk appetite of the Firm.

Risk measurement and reporting systems are subject to robust governance and oversight to ensure that their design is fit for purpose and appropriately utilised within the overall risk framework. The continued development of risk processes are a key responsibility of all risk functions and business and senior management.

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

There is a regular reporting of risk issues and data to business line management, to specialist functions and to the senior management of the Firm.

PHUK'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 Pershing Risk Committee (PRC) monthly and the Board of Directors quarterly.

PHUK uses the BNY Mellon 'Risk Universe' definition of 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

The Risk and Control Self-Assessment (RCSA) embedded within PHUK to ensure all Operational Risks are identified and the effectiveness of the design and operation of related controls are assessed and maintained. RCSA control gaps and actions plans form part of the standard risk management report to the RMC, providing oversight of risk to the business.

3.3.2 Key Risk Indicators

Key Risk Indicators (KRIs) provides PHUK with the capability to monitor and track various risk metrics and related thresholds for risks identified in Control Model assessments. A robust monthly reporting process has been embedded within the operational risk framework and processes.

3.3.3 Operational Risk Events

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

3.3.4 High Level Assessment

A High Level Assessment (HLA) is carried out to assess 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. The results of this assessment are reported into the BNY Mellon Risk Management Platform.

3.3.5 Top Risks

Top Risks leverage the HLA, and are identified according to the assessment of the inherent risk, quality of controls in place to mitigate risk and likelihood to identify residual risk. The overall top risks report, including rating and management actions, is reviewed and approved by the Pershing Risk Committee and subsequently presented to the Board and the BNY Mellon EMEA Investment Services Risk and Compliance Committee.

3.3.6 Stress Testing

The process reflects stressed scenarios that identify an appropriate range of adverse circumstances and events of varying nature, severity and duration relevant to the PHUK risk profile. Stress testing is also undertaken on an ad-hoc basis as required. 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.

3.3.7 Risk Appetite

PHUK's risk appetite is defined as being the amount and type of risk that it regards as appropriate to accept in order to execute its business strategy. PHUK's risk appetite comprises of both quantitative measures (e.g. limits) and qualitative measures (e.g. policies, procedures and the overall governance structure).

The PHUK risk appetite is aligned to the risk appetite of BNY Mellon which is to commit to maintaining a balance sheet that remains strong across market cycles to meet the expectations of its major stakeholders, including clients, shareholders, employees and regulators.

The Board adopts a prudent appetite to all elements of risk to which the firm is exposed. Various tolerances of risk are recognised within the Firm's overall risk appetite statement to ensure that the level of risk is managed within the Board's overall appetite to risk and does not pose a threat to achieving PLC's business strategy and objectives.

3.4 Credit risk

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

Credit risk is the risk of financial loss to Pershing in the event that a client, underlying client or market counterparty fails to meet its contractual obligations to Pershing Limited or Pershing Securities Limited. The majority of Pershing's credit risk arises from exposures existing between trade date and actual settlement date.

Pershing manages credit risk exposure by establishing various limits for its clients.

3.4.1 Credit exposure under Basel II

The legal structure of the Model B agreements provides Pershing with the right to set-off any indebtedness of underlying clients against any credit balance in the name of the same underlying client. Pershing also has recourse to investments and cash as collateral and indemnities from clients in respect of any underlying clients. Consequently there is no single point of failure that could lead to a major credit loss.

The definition of exposure used in this report is consistent with that recommended by the BBA Pillar 3 Working Party. The calculation of EAD takes into account both current exposure and potential drawings prior to default over a 12 month time horizon. As such, exposure in this context may differ from statutory Generally Accepted Accounting Practice (GAAP) for balance sheet carrying values. Credit exposure is computed under the standardised approach.

Table 1: PHUK Standardised gross credit exposure by class

All figures in £000's	EAD pre CRM		Average EAD pre CRM	
As at 31st December	**2012**	**2011**	**2012**	**2011**
Central Governments and Central Banks	129,394	198,435	129,595	145,247
Institutions	295,071	150,572	280,306	249,990
Corporates	4,429	190,527	9,179	12,635
Retail	9,017	25,789	19,045	30,335
Past due items	258	1,493	430	1,054
Other items	6,058	-	6,597	-
Total	**444,227**	**566,816**	**445,152**	**439,261**

Average exposure is based on a 12 month average

Table 2: PHUK Standardised gross credit exposure by geography

As at 31st December 2012 (£000's)	UK	EMEA	North America	Asia Pacific	Total
Central Governments and Central Banks	129,392	1	-	-	129,394
Institutions	273,057	22,014	-	-	295,071
Corporates	4,427	2	-	-	4,429
Retail	8,891	126	-	-	9,017
Past due items	255	3	-	-	258
Other items	6,033	25	-	-	6,058
Total	**422,056**	**22,171**	**-**	**-**	**444,227**

Table 3: PHUK Standardised gross credit exposure by industry sector

As at 31st December 2012 (£000's)	Central Governments and Central Banks	Institutions	Corporates	Short term claims on Institutions & Corporates	Collective Investment Undertakings	Other items	Total
Central and local government	128,872	-	-	-	-	-	128,872
Insurance companies and pension funds	-	7	-	-	-	-	7
Banks and other financial	522	288,347	3,354	-	68	6,058	298,349
Private sector education, health	-	-	-	-	-	-	-
Other business activities	-	2,175	-	-	-	-	2,175
Personal & community service activities	-	-	-	-	-	-	-
Other individual loans and advances	-	4,542	1,076	9,017	189	-	14,824
Total	**129,394**	**295,071**	**4,429**	**9,017**	**257**	**6,058**	**444,227**

Table 4: PHUK Standardised gross credit exposure by residual maturity

As at 31st December 2012 (£000s)	On demand	Up to 1 year ex on demand	Total
Central Governments and Central Banks	-	129,394	129,394
Institutions	173,368	121,703	295,071
Corporates	-	4,429	4,429
Retail	-	9,017	9,017
Past due items	-	258	258
Other Items	-	6,058	6,058
Total	**173,368**	**270,858**	**444,227**

Table 5: PHUK Impaired and past due exposures and provisions by industry sector

As at 31st December 2012 (£000s)	Impaired assets	Past due assets > 90 days (not impaired)	Individual & collective provisions	Charged to Income statement for the year ended 31 Dec 2012
Central governments & central banks	0	0	0	0
Institutions	0	68	0	0
Individuals	0	190	0	0
Total	**0**	**258**	**0**	**0**

Table 6: Impaired and past due exposures and provisions by geographic area

As at 31st December 2012 (£000s)	Impaired assets	Past due assets > 90 days (not impaired)	Individual & collective provisions	Charged to Income statement for the year ended 31 Dec 2012
UK	0	255		0
Europe, Middle East & Africa	0	3		0
Total	**0**	**258**	**0**	**0**

3.4.2 Counterparty credit risk

Pershing seeks to minimise market counterparty risk by only allowing clients to trade with approved counterparties that have been reviewed by Pershing. Counterparty credit risk arises mainly in the Model B settlement business in which Pershing interposes itself between a client and a market counterparty as principal to a transaction or series of transactions. In the event that a client fails to deliver securities, Pershing is required to honour the failed trade, and in the event of client default may be required to settle the trade by closing out in the open market. Pershing also incurs credit risk in such situations, although in some OTC markets this is limited to the impact of adverse price movements on failed trades in the event that Pershing's client defaults and a market counterparty has to settle the trade elsewhere. Although Pershing regularly reviews credit exposure to clients, underlying clients and market counterparties to address credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee.

3.5 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.

For Pershing, market risk arises principally from fluctuations in the value of assets, interest or exchange rates. Pershing's foreign exchange exposure is limited to residual balances resulting from non-marketable amounts within specific intra-day and overnight limits on both an individual currency and overall book basis. Volumes and ticket sizes are thus immaterial.

Interest rate risk at Pershing is also considered minimal as it only arises on interest rate movements that depress the value of securities held as collateral in mitigation of exposures. Pershing holds UK gilts to comply with the FSA's liquid asset buffer requirements and interest rate position risk is calculated thereon as per FSA rules.

3.6 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).

The managers of the business are responsible for identifying the risks associated with key business processes and threats to meeting their overall business objectives, assessing the quality or design of controls in place to mitigate and manage risk, and are accountable for the operation of those controls. Various methodologies, techniques and risk reporting are provided to managers by the Operational Risk Management department to enable them to meet their responsibilities.

Pershing has a robust risk management oversight and governance structure, which confirms that policies and procedures are regularly reviewed and updated to reflect the development of the business and changes in industry best practice. This governance oversight is further supported by various shared service functions such as Compliance, Internal Audit, IT Security and Risk Management at a group level.

3.6.1 Capital Resource Requirement (Pillar 1)

For the purposes of calculating a Pillar 1 operational risk capital charge under the Basel II Standardised Approach, Senior Management have determined that Pershing business activities fall under either the Agency Services or Retail Brokerage Basel business lines. For the purposes of this calculation, the average 3-year income streams for these activities have been weighted at 15% and 12% respectively.

3.7 Liquidity risk

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

Pershing will at all times maintain liquidity resources which are adequate both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met in full as they fall due.

BNY Mellon firms are required to have in place robust strategies, policies, processes and systems to identify measure, manage and monitor the liquidity risks to which they may be exposed. Firms must have reliable management information to ensure appropriate and timely forward-looking information on the liquidity risk of the firm and early warning indicators to identify increases in liquidity risk.

Senior management is responsible for establishing appropriate liquidity risk tolerances; for approving, reviewing and updating the firm’s approach to managing liquidity risk; and for reviewing the firm’s liquidity position including compliance with the UK FSA liquidity adequacy rule and regularly reporting this information to the Executive Committee and ALCO.

Pershing is self-sufficient within the group liquidity framework and complies with local liquidity regulations. Stress testing is developing on a quarterly basis to demonstrate continued liquidity adequacy and to evaluate the impact under stress conditions. Pershing has deposit lines with a number of banks which are utilised and monitored on a daily basis by the Treasury department, weekly by the Credit and Market Risk Committee and reported on a monthly basis to the Executive Committee, ALCO and BNY Mellon. Metrics about the firm’s liquidity position are reported to Executive Committee and ALCO. On a day to day basis, liquidity and funding requirements are actively managed by the Pershing treasury operations function.

Pershing falls under an EMEA Programme designed to ensure that it complies with FSA Liquidity Standards (PS 09/16) issued in October 2009. This is an ongoing programme of work in which Pershing ensures compliance with FSA BIPRU 12 Systems and Controls standards, including completion of an Individual Liquidity Adequacy Assessment (ILAA) and reporting under the regime including FSA047/FSA048 returns.

FSA Systems and Control requirements oblige the governing body (i.e. Board of Directors (BOD)) to express and check conformity with the firm's liquidity risk appetite. The outputs of the firm's stress testing inform the governing body's decisions on whether the firm's liquidity risk appetite should be amended and form the basis of a Contingency Funding Plan.

As at 31st December 2012, Pershing enjoys a strong positive liquidity position and has been enhanced by the purchase of UK gilts. Metrics related to the liquidity position are continually being enhanced and are reported to the firm Executive Committee on a monthly basis, and ALCO.

4 Capital resources and requirements

During the year ended 31st December 2012, PHUK complied with all of the externally imposed capital requirements to which it was subject.

The following table summarises the composition of the PHUK regulatory capital as at 31st December 2012. The group does not have any Innovative Tier 1 capital as at 31st December 2012.

Table 7: Capital resources

As at 31st December 2012 (£000s)	PHUK	Significant subsidiaries	
		PSL	PL
Tier 1 Capital			
Called up Share Capital	191,136	13,390	42,335
Retained Earnings and other Reserves	-2,458	23,599	6,092
Total Tier 1 Capital	188,678	36,989	48,427
Deductions from Tier 1 Capital			
Intagible Assets	-100,712	-	-5,350
Total Tier 1 Capital after deductions	**87,966**	**36,989**	**43,077**
Tier 2 Capital			
Lower Tier 2 Capital			
Dated subordinated debt	-	-	-
Total Tier 2 Capital	**-**	**-**	**-**
Deductions from total of tiers 1 and 2 capital			
Connected lending of a capital nature	-	-	-17,087
Total Deductions from total of tiers 1 and 2 capital	87,966	36,989	25,990
Tier 3 Capital			
Short term subordinated debt	-	-	7,500
Total Capital Resources	**87,966**	**36,989**	**33,490**
Pillar 1 Capital Requirements			
Credit Risk	4,324	2,443	1,529
Operational risk	10,742	8,189	1,624
Market Risk	1,684	453	1,079
Total Pillar 1 Capital Requirements	**16,750**	**11,085**	**4,232**
Capital surplus	**71,216**	**25,904**	**29,258**
Capital Adequacy Ratio	**525%**	**334%**	**791%**

5 Capital requirements and adequacy

The Board, through setting its risk appetite and focusing on risk assessment, evaluates its current and projected capital requirements under business as usual or stressed conditions.

As part of the Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP), the main sources of risk are identified, assessed *(impact & likelihood* methodology) by the relevant senior managers after taking into account mitigating controls and rationale for direction of risk, in light of the risk appetite set by the Board.

The following table summarises the Pillar 1 capital requirement for PHUK by exposure class as at 31st December 2012.

Table 8: Capital requirements

As at 31 December 2012 (£000s)	PH(UK)	Significant	
		PSL	PL
Credit Risk Standardised Approach			
Central government & central banks	4	-	4
Institutions	3,830	2,438	1,042
Corporates	-	-	-
Retail	-	-	-
Past due items	5	5	-
Other Items	485	-	483
Total Credit Risk capital requirement	**4,324**	**2,443**	**1,529**
Operational Risk – standardised approach	**10,742**	**8,189**	**1,624**
Market risk			
Interest rate position risk	1,394	290	-
Foreign currency Position Risk Requirement	290	163	1,079
Total Market Risk capital requirement	**1,684**	**453**	**1,079**
Total Pillar 1 Capital Requirements	**16,750**	**11,085**	**4,232**
Total Capital Resources	**87,966**	**36,989**	**33,490**
Capital surplus	**71,216**	**25,904**	**29,258**
Capital Adequacy Ratio	**525%**	**334%**	**791%**

6 Remuneration disclosure

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 PHUK.

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.

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.

Variable compensation funding and risk adjustment

PHUK's staff 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.

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.

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.

Quantitative Remuneration Disclosure

The tables below provide details of the aggregate remuneration of Code Staff for PHUK for the year ending 31 December 2012.

The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of PHUK, to reflect the full reporting period. This is a change in methodology to prior years where remuneration was presented on a time apportioned basis.

Table 9: Remuneration disclosures

Aggregate remuneration expenditure for Code Staff in 2012[1]

	Investment Services	Other[2]	Total
	£000s	£000s	£000s
	6,702	1,315	8,017

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	5	15	20
Fixed remuneration (£000s)[1]	1,376	2,549	3,925
Variable remuneration (£000s)	3,075	1,016	4,092

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.

BNY MELLON

7 Glossary of terms

The following terms are used in this document:

ALCO	Asset and Liability Committee
BNYMC	The Bank of New York Mellon (ultimate parent of PHUK)
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 (credit risk)
CCP	Central Counterparty
COC	BNY Mellon's Compensation and Oversight Committee
CRD	Capital Requirements Directive
CRM	Credit Risk Mitigation
DvP	Delivery versus Payment
EAD	Exposure at Default
ECAI	External Credit Assessment Institution
EMEA	Europe, Middle East and Africa
ERGC	EMEA Remuneration Governance Committee
ExCo	Executive Committee
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FX PRR	Foreign Exchange Position Risk Requirement
GAAP	Generally Accepted Accounting Practice
HLA	High Level Assessment
HRCC	Human Resources and Compensation Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFA	Independent Financial Advisor
ILAA	Individual Liquidity Adequacy Assessment
KRI	Key Risk Indicator
LRM	Liquidity Risk Management Framework
LTIP	Long term incentive plan
ORM	Operational Risk Management
PHUK	Pershing Holdings (UK) Limited
PRA	Prudential Regulation Authority
PRC	Pershing Risk Committee
RCSA	Risk Control Self Assessment
TNW	Tangible Net Worth

8 Contacts

Graham Cohen, CFO
Email: Regulatory@pershing.co.uk

Pershing Limited

Capstan House
One Clove Crescent
East India Dock
London, E14 2BH
United Kingdom

Switchboard: +44 (0) 20 7864 8000