2013 PILLAR 3 DISCLOSURE

PERSHING HOLDINGS (UK) LIMITED

BNY MELLON

Pillar 3 Disclosure

Pillar 3 disclosures are published in accordance with the requirements of the Prudential Regulation Authority (PRA)/Financial Conduct Authority ('FCA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3).

Policy and Approach

Pillar 3 disclosures are required for a consolidated group and for those parts of the group covered by the Basel II framework. Pending implementation of the Basel II framework by The Bank of New York Mellon Corporation (BNYMC), there is currently no comparable disclosure provided on a consolidated basis by Pershing Holdings (UK) Limited's parent undertaking. As such, these disclosures have been prepared for Pershing Holdings (UK) Limited (or the "PHUK").

These disclosures have been approved by Pershing Holdings (UK) Limited's Board of Directors who have verified that they are consistent with formal policies adopted regarding production and validation.

Information in this report has been prepared solely to meet Pillar 3 disclosure requirements of the entities noted, and to provide certain specified information about capital and other risks and details about the management of those risks, and for no other purpose. These disclosures do not constitute any form of financial statement on the business nor do they constitute any form of contemporary or forward looking record or opinion about the business.

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content e.g. disclosure about risk management practices and capital resources at year end.

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

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

Disclosures will be published on The Bank of New York Mellon group website (www.bnymellon.com), see section Investor relations, Financial reports, other regulatory filings on the 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 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 2013, BNY Mellon had $27.6 trillion in assets under custody and/or administration, and $1.58 trillion in assets under management.

These 2013 Basel II Pillar 3 disclosures relate to Pershing Holdings (UK) Limited and are published in accordance with the requirements of the Prudential Regulation Authority (PRA)/Financial Conduct Authority ('FCA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3). PHUK uses the Basel II Standardised Approach for calculating credit, market and operational risk.

This disclosure is for Pershing Holdings (UK) Limited and its subsidiary undertakings (together the 'group') as at 31 December, 2013.

These disclosures were approved for publication by the Pershing Holdings (UK) Limited Board of Directors (hereafter the 'Board') on 30 June 2014.

1.1 Purpose of Pillar 3

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

- **Pillar 1** establishes rules for the calculation of minimum capital for Credit, Market and Operational Risk capital resources requirements.
- **Pillar 2** requires firms and supervisors to take a view on whether a firm needs to hold additional capital against risks not adequately covered in Pillar 1 and to take action accordingly.
- **Pillar 3** complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to gauge the capital adequacy of individual banks.

1.2 Highlights and Key Events

The following events took place in 2013 and are considered important events that impacted PHUK:

❖ During the year, the Group strengthened its capital position by issuing 100,000,000 £1 ordinary shares for a consideration of £100,000,000, settled in cash which was used to invest in Pershing Holdings UK Limited; thus increasing its net assets by 62%. In addition the Company converted the repayment of the £7,500,000 loan into shares and a further £1,500,000 cash investment was made into Pershing Limited; a total increase in investments during the year of £109,000,000.

❖ Signing of new business continues, with strong pipeline in 2014. The PHUK Executive Committee realises that due to the changing business and regulatory environment, the current business model needs to adapt and change to maintain and improve upon PHUK's financial and revenue position going forward.

❖ The organisational framework within Pershing has been further enhanced by:

  ❖ Continue the global location strategy lowering the cost base through the increased relocation of the headcount from high to medium and lower cost locations;
  ❖ Focus on service excellence, including solution developments and operating efficiencies, client experience, employee engagement and talent management are considered key strategies, to help execute the growth plans.

2 Scope and Application of Directive Requirements

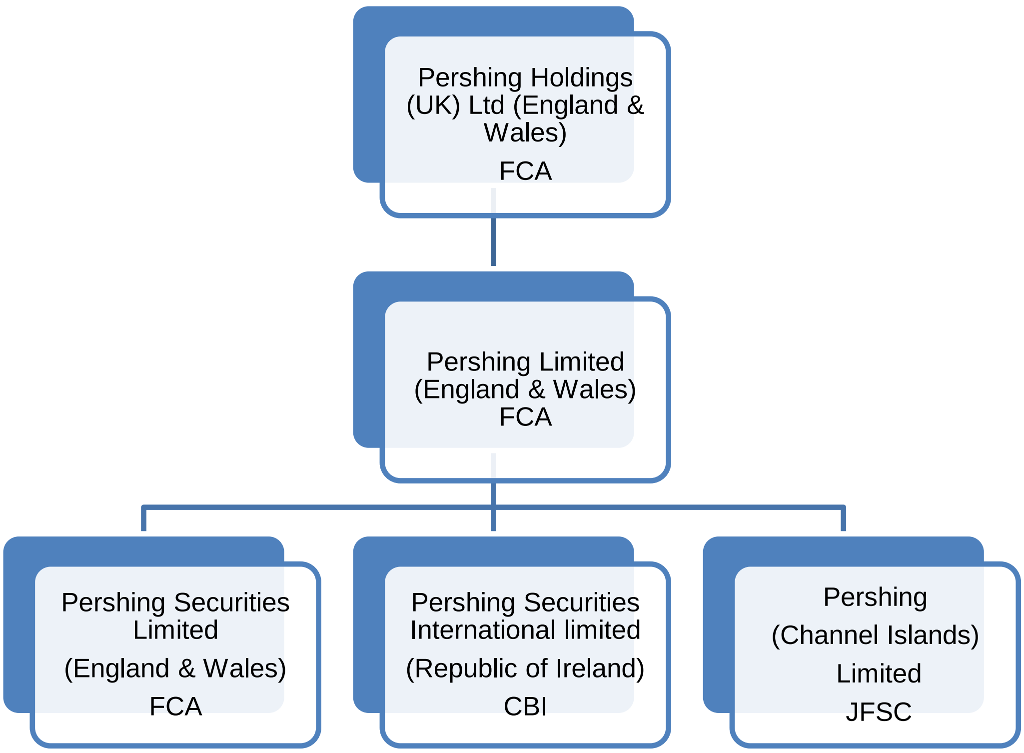
Pershing Holdings (UK) Limited is the UK based, wholly owned and operationally independent subsidiary of Pershing Group LLC which is, in turn, a subsidiary of the Bank of New York Mellon Corporation.

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

Pershing (Channel Islands) Limited 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).

The corporate structure of PHUK is illustrated in Figure 1.

Figure 1: PHUK corporate structure



PHUK provides custody services, fund administration, transfer agency services, depository services to open-ended investment companies as well as corporate trust services.

3 Risk Management Objectives and Policies

3.1 Risk Management Framework

PHUK approach to risk management is to ensure that all material risks are defined, understood and effectively managed according to well-designed policies and controls. PHUK requires the maintenance of an appropriate Risk Management Framework that promotes a risk-aware and transparent culture that enables the identification, assessment, mitigation, measurement and escalation of risk and control issues.

PHUK's risk appetite is aligned to the risk appetite of BNYMC which is to maintain a balance sheet that remains strong across market cycles to meet the expectations of its major stakeholders, including clients, shareholders, employees and regulators.

The Board adopts a prudent appetite to all elements of risk to which PHUK is exposed. PHUK uses a variety of metrics to measure and monitor its risk taking activities relative to its risk appetite. Articulating the risk appetite through these metrics aids important decision-making by determining appropriate management actions that are required should the various risk thresholds be exceeded, as well determining the future strategic direction of the business.

3.2 Scope and Nature of Risk Reporting Systems

PHUK’s risk profile is managed through a number of risk assessment tools and processes. The risk management team prepares and updates the main risk facing the business and this is reviewed and considered by the PHUK Risk Committee (PRC) monthly and the Board quarterly.

The BNY Mellon group ‘Risk Universe’ defines the risk types (current or future) applicable to the business. Risk types are organised by categories according to industry standards to support the efficient classification and reporting of risks and risk events as they materialise.

3.2.1 *Risk and Control Self-Assessment*

The Risk and Control Self-Assessment (RCSA) is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risks and associated controls. RCSA control gaps and action plans form part of the standard risk management report to the PRC, providing oversight of risk to the business.

3.2.2 *Key Risk Indicators*

Key Risk Indicators (KRIs) are used by business lines to evaluate control effectiveness and residual risk within a business process. Material risks are monitored by appropriate KRIs. The business lines use the corporate KRI process to monitor changes in the probability of the high risks materialising, and to ensure that appropriate actions are taken. KRIs are reported at a minimum on a monthly basis.

3.2.3 *Operational Risk Events*

All operational losses, ‘near misses’ 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 PRC monthly.

3.2.4 *High Level Assessment*

A High Level Assessment (HLA) is carried out by business lines to assess the quality of controls in place to mitigate residual risk. Residual risk is assessed as ‘High,’ ‘Moderate to High,’ ‘Moderate,’ ‘Moderate to Low’ and ‘Low’ with direction anticipated.

3.2.5 *Top Risks*

Top Risks are identified according to the assessment of the inherent risk, quality of controls in place to mitigate risk and the likelihood to identify residual risk. A Top Risk assessment is reported to the PRC and Board meetings. Top Risks are also consolidated into the BNY Mellon Top Risk Reporting process for reporting to regional risk committees.

3.2.6 *Stress Testing*

The process reflects various scenarios that are stressed to identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to the PHUK risk profile. Stress testing is also undertaken on an ad hoc basis. Sources of risk information used to assist scenario development include Top Risk Reporting, financial sensitivity analysis, outputs from the risk assessment tools, operational risk trends, macro-economic data, financial news, client management information or general business statistics.

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by PHUK’s Risk Committee (PRC) and the Board.

The conclusion of the stress testing process is a statement of the future risk(s) the business faces, control improvements to mitigate the impact should the risk arise and where appropriate, a recommendation for the capital held against each risk type.

3.3 Risk Management Governance

PHUK has established risk and stress testing governance to periodically review, challenge and approve risk and capital management processes. The goal of the Bank’s approach to risk management is to ensure that all material risks in each business line are defined, understood, and effectively managed using well-designed policies and controls.

PHUK’s Risk Management framework helps achieve this objective. The PHUK risk management framework complies with corporate policies on managing risk and is centred around the Three Lines of Defence model (figure 2). Within the EMEA region, the EMEA Chief Risk Officer (CRO) oversees the management of risk and is supported in this role by Senior Risk Managers operating at business line, entity and/or functional level.

Figure 2: Three Lines of Defence

PHUK fully embeds a risk aware culture, though the management of risk at the following levels:

- **First line of defence**: Business Management, Executive Committee and the Board of Directors;
- **Second line of defence**: Risk Management functions, Compliance function and the Pershing Risk Committee;
- **Third line of defence**: Internal Audit review of risk management processes and compliance with Group policies and standards.

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) 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, etc.) report to the PRC to provide a consolidated escalation point for risk reporting. The PRC presents a consolidated risk report to the Executive Committee on a monthly basis.

The PRC is responsible for ensuring that risk and compliance activities undertaken by PHUK and its subsidiaries are executed in accordance with internal policies and all relevant regulations. The PRC has oversight of the Branch and underlying businesses of PHUK and reports to the Board and the EMEA Investment Services Risk and Compliance Committee. At a corporate level the BNY Mellon Basel Executive Oversight Committee provides senior management oversight of company-wide Basel processes.

3.3.1 Business Unit Risk

Business Acceptance and Review Committee is responsible for aligning new business to appropriate business lines and subsidiaries, assessing and approving the associated risks.

3.3.2 EMEA Risk Management Framework

As a global organisation BNYMC has established governance structures to monitor and assess risks on an enterprise-wide basis. BNY Mellon is organised on a regional basis, where PHUK forms part of the Europe, Middle East and Africa (EMEA) region. Oversight for EMEA is executed primarily through the following committees:

- EMEA Executive Committee
- EMEA Senior Risk Management Committee
- EMEA Investment Services Risk and Compliance Committee
- EMEA Asset Servicing Executive Committee
- EMEA Asset and Liability Committee
- EMEA AML Oversight Committee
- EMEA Controls Committee
- EMEA Stress Testing Oversight Committee

3.4 Risk Appetite

BNY Mellon defines risk appetite as the level and type of risk it is willing to accept while maximising the interests of shareholders and other corporate stakeholders including regulators. Risk appetite is linked to the strategic direction set by senior management and is approved by the BNYMC Board of Directors. Risk appetite considers the balance between risk and reward aligning the strategic goals and the overall risk.

The risk appetite is articulated through a comprehensive set of metrics; where capital represents one of the core elements of BNYMC's risk appetite. Thresholds are established to measure the performance of the business against its risk appetite.

The PHUK risk appetite is defined as being the amount and type of risk that PHUK regards as appropriate to accept in order to execute its business strategy. The PHUK risk appetite comprises of both quantitative measures (e.g. limits) and qualitative measures (e.g. policies, procedures and the overall governance structure). It is aligned with the Risk Appetite of BNY Mellon.

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 PHUK's business strategy and objectives. Various management actions are embedded in the business processes and initiated as a result of the defined thresholds within the risk appetite being exceeded or breached. These are designed to escalate identification of emerging or increasing levels of risk, focus management attention and invoke related contingency plans and responses.

3.5 Credit Risk

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

PHUK does not engage in proprietary trading, commercial lending, retail services or high risk or structured banking activities and generally acts upon a matched principal trading basis to facilitate client activity. The delivery of its operational services in a carefully managed, risk averse manner is its primary objective in order to meet its commercial and contractual obligations to its client base.

The main source of credit risk exists in the Model B relationship between PHUK and its clients, whereby PHUK takes on the Client's settlement obligations. The main credit risk is, therefore, that the client cannot meet its obligations to PHUK. The credit risk of such a failure would devolve to a market risk, as the exposure would then be against any on-going movement in the price of the underlying stock until a replacement sale or purchase is arranged to satisfy PHUK's obligations to the market counterparty.

In the case of a failure to deliver cash, PHUK would sell the stock or collateral at current market prices. Risk Appetite limits are therefore set with respect to

- the total level of mark to market risk against PHUK and
- the level of mark to market exposure against each client.

The risk is further mitigated through individual Client limits, retained commission and collateral. There is no single point of failure that could lead to a major credit loss. Settlement risk also exists between PHUK and Central Counterparty Clearing House (CCP), the counterparty or its settlement agent. It should be noted that over the past seven years PHUK has not suffered a credit related loss arising from the failure of a client or underlying client as exposure is mitigated by adequate collateral and the fact that PHUK's clients effectively provide an indemnity against any underlying client failure.

3.5.1 *Credit Risk Exposure*

Credit exposure is computed under the Standardised approach. This method for calculating credit risk capital requirement uses supervisory risk weights.

Except where stated, exposure is defined as **Exposure at Default (EAD) pre Credit Risk Mitigation (CRM)** i.e. a regulatory exposure value after the application of Credit Conversion Factors (CCF) for off balance sheet items (including undrawn commitments) and, after netting but before application of Credit Risk Mitigation factors (e.g. property, other physical collateral). The calculation of EAD therefore takes into account both current exposure and potential drawings prior to default over a 12 month time horizon. As such, exposure in this context may differ from statutory GAAP accounting balance sheet carrying values.

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

i) Standardised gross Credit exposure (EAD pre CRM)

The following table summarises the standardised gross credit exposure by class as at 31 December 2013.

Table 1: Standardised gross credit exposure by exposure class

Standardised gross credit exposure by exposure class	Exposure at Default (EAD) pre Credit Risk Mitigation		Average EAD pre CRM		Standardised Credit Risk Capital Requirement	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Central Governments and Central Banks	1,909	522	753	4,791	4	4
Institutions	166,330	200,018	266,950	280,306	3,983	3,830
Corporates	17,177	4,429	7,672	9,179	15	-
Retail	15,787	9,017	16,742	19,045	-	-
Past due items	1,149	258	1,046	430	92	5
Other	6,420	6,058	68,105	6,597	514	485
Total	**208,772**	**220,302**	**361,269**	**320,348**	**4,608**	**4,324**

i) Standardised gross Credit exposure (EAD pre CRM) by credit quality step[1]

The following table summarises the standardised gross credit exposure by credit quality step as at 31 December 2013.

Table 2: Standardised pre-mitigated credit exposures by Credit Quality Step

Standardised Pre-mitigated Credit Exposures by Credit Quality Step	Central Governments and Central Banks		Institutions: Maturity <= 3m		Institutions: Maturity > 3m		Corporates		Others		Total	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
1	1,782	-	1,186	-	-	-	17,177	-	-	-	20,145	-
2	104	-	142,366	7	-	-	-	-	-	-	142,469	7
3	-	522	-	193,294	-	-	-	3,354	-	6,126	-	203,296
4	24	-	1,929	2,175	-	-	-	-	-	-	1,952	2,175
5	-	-	20,677	-	-	-	-	-	-	-	20,677	-
6	-	-	172	4,542	-	-	-	1,076	23,356	9,207	23,528	14,824
Total	**1,909**	**522**	**166,330**	**200,018**	-	-	**17,177**	**4,429**	**23,356**	**15,333**	**208,772**	**220,302**

Table 2: Standardised post-mitigated credit exposures by Credit Quality Step

Standardised Post-mitigated Credit Exposures by Credit Quality Step	Central Governments and Central Banks		Institutions: Maturity <= 3m		Institutions: Maturity > 3m		Corporates		Others		Total	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
1	1,782	-	1,186	-	-	-	-	-	-	-	2,968	-
2	104	-	125,712	-	-	-	-	-	-	-	125,816	-
3	-	522	-	182,139	-	-	183	-	-	6,271	183	188,932
4	24	-	1,926	4	-	-	-	-	-	-	1,949	4
5	-	-	18,321	-	-	-	-	-	-	-	18,321	-
6	-	-	172	4,542	-	-	-	-	7,191	-	7,363	4,542
Total	**1,909**	**522**	**147,316**	**186,685**	-	-	**183**	-	**7,191**	**6,271**	**156,599**	**193,478**

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

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

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

[2] Geographic distribution is based on the domicile of the borrower or obligor. Europe, Middle East & Africa excludes Luxembourg (separately reported).

Table 3: Standardised gross credit exposure by geographic area

Standardised exposure classes	**Europe**		**Americas**		**Africa**		**Asia Pacific**		**Total**	
(£000s)	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Central Governments and Central Banks	1,909	522	-	-	-	-	-	-	1,909	522
Institutions	155,538	193,465	10,792	6,553	-	-	-	-	166,330	200,018
Corporates	17,177	4,429	-	-	-	-	-	-	17,177	4,429
Retail	15,787	9,017	-	-	-	-	-	-	15,787	9,017
Past due items	1,149	258	-	-	-	-	-	-	1,149	258
Other	6,420	6,058	-	-	-	-	-	-	6,420	6,058
Total	**197,980**	**213,749**	**10,792**	**6,553**	**-**	**-**	**-**	**-**	**208,772**	**220,302**

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

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

Table 4: Standardised gross credit exposure by residual maturity

Standardised gross credit exposure by residual maturity	**Less than 3 months**		**3 months to 1 year**		**Over 1 year or undefined**		**Total**	
(£000s)	2013	2012	2013	2012	2013	2012	2013	2012
Central Governments and Central Banks	1,909	522	-	-	-	-	1,909	522
Institutions	166,330	200,018	-	-	-	-	166,330	200,018
Corporates	17,177	4,429	-	-	-	-	17,177	4,429
Retail	15,787	9,017	-	-	-	-	15,787	9,017
Past due items	1,149	258	-	-	-	-	1,149	258
Other	-	-	-	-	6,420	6,058	6,420	6,058
Total	**202,352**	**214,244**	-	-	**6,420**	**6,058**	**208,772**	**220,302**

3.5.2 *Capital Resource Requirement*

PHUK calculates Pillar 1 credit risk capital resource requirement using the Standardised Approach, as defined in Capital Requirements Directive.

3.6 Counterparty Credit Risk

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

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.

3.7 Market Risk

Market risk is the risk to a firm's financial condition arising as a result of adverse movements in the markets, such as foreign currency exchange rates, interest rates, equity and commodity prices.

For PHUK, market risk arises principally from fluctuations in the value of assets, interest or exchange rates and hence is exposed to two types of market risk:

a) Foreign currency risk: 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.

   PHUK calculates the Pillar 1 market risk capital resource requirement for FX based on Standardised approach as defined in Capital Requirements Directive.

b) Interest rate risk: 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 FCA's liquid asset buffer requirements and interest rate position risk is calculated thereon as per FCA rules.

3.8 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events (including legal risk but excluding strategic and reputation risk). It may arise from errors in transaction processing, breaches of internal control systems and compliance requirements, internal or external fraud, damage to physical assets, and business disruption due to systems failures, execution, delivery and process management or other events. Operational risk can also arise from potential legal or regulatory actions because of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations, these being sub-classified as compliance risk.

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

PHUK business managers are responsible for Risk Control Self Assessments ("RCSA"), which includes identification of the risks associated with key business processes, identifying and measuring the effectiveness of controls in place to manage risk and for remediation of any weakness. RCSAs are reviewed on at least an annual basis by Business Management with the guidance from Risk Management.

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

Risk Management performs monitoring appropriate to the business and identified risks, which includes KRI reporting, significant event analysis and ad hoc reviews. Risk Management is also required to formally review the ICAAP at least annually, coupled with quarterly ICAAP refresh processing. Moreover, the key elements of the RCSA, internal control environment, monitoring and governance arrangements are routinely reviewed and challenged by the PRC.

3.8.1 *Capital Resource Requirement*

PHUK calculates the Pillar 1 operational risk capital resource requirement under the Basel II Standardised Approach; it has been determined that PHUK falls under the Agency Services Basel business line. The standard indicator approach for operational risks sets out a 15% risk rate for a single indicator that is determined by the sum of net interest income and net non-interest income. The operational risk is based on a 5 year projection.

3.9 Liquidity Risk

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

Liquidity risks can arise from funding mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputational risks also can affect PHUK's liquidity risk profile and are considered in the liquidity risk framework.

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

PHUK maintains liquidity resources which are adequate both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met in full as they fall due.

3.10 Compliance Risk

Compliance risk covers the impact on earnings or capital from violation, or non-compliance with laws, rules, regulations, prescribed practices or ethical standards which may, in turn, expose PHUK and its directors to fines, payment of damages, the voiding of contracts and damaged reputation (with accompanying indirect costs).

PHUK establishes processes and procedures to ensure compliance with applicable laws, regulations, policies, procedures and the Code of Conduct. Emerging regulations and changes are monitored by the Compliance and Risk functions. Impact assessments are performed and implementation plans established where necessary to ensure compliance.

Evidence in the PHUK's history of losses indicates that this level of risk is very low. PHUK has never suffered from a sanction event where the regulator has imposed a fine.

3.11 Business Risk

Business risk is the risk of loss caused by unexpected changes in the macro-economic environment, client behaviour, inappropriate management actions, performance of competitors or events that impact earnings, for example, market contraction, reduced margins from competition, adverse customer selection and business concentration.

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

3.12 Outsourcing Risk

Outsourcing risk is the risk that failure in respect of the provision of services by third party provider(s) that could potentially damage an entity's operations, or if contracts with any of the third party providers are terminated, that the entity may not be able to find alternative providers on a timely basis or on equivalent terms.

PHUK relies on internal and external outsourcing entities within and outside of the BNYMC group to perform its core business activities on a continuing basis. To date, PHUK has only outsourced critical tasks to BNYMC group entities which hold the required permissions in their jurisdiction to carry out the respective delegated tasks. Currently there are no critical tasks outsourced to third parties outside BNYMC entities.

PHUK's Outsourcing Policy details certain minimum standards that should be adopted when considering or dealing with a service and/or activity that is outsourced to another legal entity, either within the Group or to an external provider and establishes a framework for evaluating and analysing outsourcing projects.

3.13 Concentration Risk

Concentration risk is the risk of loss arising from significant interrelated asset or liability exposures, which in cases of distress associated with markets, sectors, countries, or areas of activity, may threaten the soundness of the institution.

Traditionally analysed in relation to credit activities, concentration risk arises from exposures that may arise within or across different risk types, including intra-risk concentration where exposure concentration exists within a single risk type, and inter-risk concentrations arising from interactions between different risk exposures across different risk categories connected by a common risk factor (e.g. counterparties, vendor, economic sector, geographic region, and/or financial instrument/product type).

PHUK is exposed to concentration through:

- Credit
- Client
- Operational
- Market

3.13.1 *Credit Concentration Risk*

Credit concentration risk results from concentration of exposures to a single counterparty, borrower or group of connected counterparties or borrowers. This includes on and off-balance sheet exposures.

PHUK is exposed to credit concentration risk through exchanges and central counterparties, correspondent banks and issuers of securities. The settlement and receipt of securities and related cashflows to and from these entities represents a fundamental inherent risk within PHUK's business model. These risks are managed and mitigated through the establishment of various limits, on-going monitoring of exposure, collateral and contractual obligations upon the client, including margin calls.

3.13.2 *Client Concentration Risk*

PHUK is exposed to client concentration risk. Client concentration risk remains stable compared to 2012. The group would also be willing to diversify products and activities, increase the number of new client take-ons, review the pricing, possibly cease relationship with unprofitable clients and would be seeking to increase productivity.

3.13.3 *Operational Concentration Risk*

Concentration risk in operations can arise from a number of operational risk factors, including external suppliers providing key products and services, external market counterparties, and the geographic concentration of operations.

PHUK has a number of operational dependencies on the BNY Mellon Group, for instance intra-group outsourcing.

3.13.4 *Market Concentration Risk*

PHUK's business model is to facilitate client trading and settlement activity for financial services firms mainly within the UK and Ireland, therefore a natural concentration exists as regards a geographical and industry sector concentration within its business. However, there is a diversity within the industry sector in that there is a fairly even split between Institutional Broker Dealer business as against the Wealth and Advisor Solutions business. In addition, many of these businesses are owned by international or global firms which further mitigate the risk of the local firm failing.

3.14 Group Risk

Group risk is the risk that the financial position of PHUK may be adversely affected by its relationships (financial and non-financial) with other entities within BNYMC or by risks that may affect the whole of BNYMC.

PHUK has group dependencies on BNY Mellon, including business leadership, dependency on certain IT systems and support services provided by central functions. In addition, the main dependency upon BNYMC was determined to be the guarantee of funding arrangements to support the normal business operations.

3.15 Interest Rate Risk in Non-trading Book

Interest rate risk (IRR) is the risk associated with changes in interest rates that affect net interest income (NII) from interest-earning assets and interest-paying liabilities. For regulatory purposes, interest rate risk is monitored in the trading portfolio and non-trading book separately. IRR exposure in the non-trading book arises from on and off-balance sheet assets and liabilities, and changes with movements in domestic and foreign interest rates.

3.16 Legal Risk

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

PHUK reduces its legal risk through strict policies and procedures defined to ensure contractual obligations are fulfilled, and to minimise the risk of legal action; and through dedicated internal counsel and the use of external counsel.

3.17 Model Risk

Model risk is defined as the error in estimation or measurement resulting from the inherent limitations in the financial models used in assessing and managing risk.

PHUK uses models in its risk management framework. All models are subject to the BNY Mellon Model Risk Management Policy under the Model Risk Management Group who maintains the model inventory and overseas model review and validation.

3.18 Pension Obligation Risk

Pension obligation risk is the risk to PHUK caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). It also means the risk that PHUK will make payments or other contribution to or with respect to a pension scheme because of a moral obligation or because the firm considers that it needs to do so for some other reason.

3.19 Reputation Risk

Reputation risk covers the risk to brand and relationships which do not arise out of any error. It can arise from all aspects of business activities, including but not limited to operational failures in business practices, legal or regulatory sanctions, joint ventures with outside firms, engagements with third-party vendors, or off-balance sheet activities.

BNYMC relies heavily on its reputation and standing in the market place to retain and attract clients. PHUK identifies and assesses the impact of reputation risk through its risk management processes and using scenario analysis.

3.20 Strategic Risk

Strategic risk is defined as the risk of direct or indirect loss arising from the adverse effects or the improper implementation of business decisions. Strategic risk can result from either a misalignment of business line decisions which impact the group, or failure to deliver business value through new strategic initiatives.

PHUK relies on robust governance processes to monitor and/or mitigate strategic risk. PHUK will maintain an integrated Enterprise Risk Management Framework to ensure that risks inherent in its business activities are identified, measured, managed and monitored and adequate business acceptance controls and mitigation exist.

4 Capital Resources

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

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

Table 5: Capital resources

As at 31 December Capital Resources (£000s)	PHUK		PSL		PL	
	2013	2012	2013	2012	2013	2012
Total Tier 1 Capital	277,658	188,678	135,248	36,989	156,559	48,427
Deductions from Tier 1 Capital						
Intangible Assets	-93,829	-100,712	-	-	-7,136	-5,350
Total Tier 1 Capital after deductions	183,829	87,966	135,248	36,989	149,423	43,077
Tier 2 Capital						
Lower Tier 2 Capital						
Deated subordinated debt	-	-	-	-	-	-
Total Tier 2 Capital	-	-	-	-	-	-
Deductions from total of tiers 1 and 2 capital						
Material Holdings	-	-	-	-	-117,087	-17,087
Connected lending of a capital nature	-	-	-	-	-	-
Total Deductions from total of tiers 1 and 2 capital	-	-	-	-	-117,087	-17,087
Tier 3 capital						
Short Term subordinated debt	-	-	-	-	-	7,500
Total Capital Resources	**183,829**	**87,966**	**135,248**	**36,989**	**32,336**	**33,490**

4.1 Risk Weighted Assets

The following table summarises the Risk Weighted Assets (RWAs) for PHUK and its significant subsidiaries by risk type.

Table 6: Risk Weighted Assets by risk type

As at 31 December Risk Weighted Assets (RWAs) by risk type (£000s)	PHUK		PSL		PL	
	2013	2012	2013	2012	2013	2012
Credit Risk	52,488	51,689	26,540	27,143	14,885	19,113
Operational Risk	145,588	134,278	100,675	102,357	8,100	20,300
Market Risk	35,823	21,045	19,820	5,666	15,563	13,488
Total RWAs	**233,899**	**207,012**	**147,035**	**135,165**	**38,548**	**52,901**

5 Capital Requirements and Adequacy

The following table details the Pillar 1 capital requirements by exposure class for PHUK and its significant subsidiaries as at 31 December 2013 .

Table 7: Capital requirements by risk type

As at 31 December Capital Requirements and Adequacy (£000s)	PHUK		PSL		PL	
	2013	2012	2013	2012	2013	2012
Credit Risk Standardised Approach						
Central Governments and Central Banks	4	4	-	-	2	4
Institutions	3,983	3,830	2,438	2,438	687	1,042
Corporates	15	-	-	-	-	-
Retail	-	-	-	-	-	-
Past due items	92	5	92	5	-	-
Other	514	485	-	-	503	483
Total Credit Risk capital requirement	4,608	4,324	2,531	2,443	1,192	1,529
Operational Risk - standardised approach	9,550	10,742	8,054	8,189	648	1,624
Market Risk						
Foreign currency Position Risk Requirement	2,866	1,684	1,586	453	1,245	1,079
Total Market Risk capital requirement	2,866	1,684	1,586	453	1,245	1,079
Total Pillar 1 Capital Requirements	17,024	16,750	12,170	11,085	3,085	4,232
Total Capital Resources	183,829	87,966	135,248	36,989	32,336	33,490
Capital surplus	166,805	71,216	123,078	25,904	29,251	29,258
Total Capital Resources / Total Pillar 1 Capital Requirements	**1080%**	**525%**	**1111%**	**334%**	**1048%**	**791%**

6 Remuneration Disclosure

6.1 Governance

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

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

With respect to employees broadly, the company's compensation plans are also monitored by a management-level compensation oversight committee (COC). The members of the COC are members of BNY Mellon's senior management and include the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer and the Risk Management and Compliance Chief Administrative Officer. An important responsibility of the COC is to advise the HRCC on any remuneration risk-related issues.

To ensure alignment with local regulations in BNY Mellon's EMEA (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. Remuneration policy decisions of the PHUK rests with the Human Resources Compensation Committee ("HRCC"), which also approves the year-end compensation awards of its regulated staff members.

6.2 Aligning pay with performance

BNY Mellon's compensation philosophy is to offer a total compensation opportunity that supports our values: client focus, trust, teamwork and outperformance. We pay for performance, both at the individual and corporate level. We value individual and team contributions and reward based on how both contribute to business results. In support of this philosophy, variable compensation is regularly used as a means of recognising performance.

By implementing our compensation philosophy and principles, we align the interests of our employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value, by rewarding success and by ensuring that our incentive compensation arrangements do not encourage our employees to take unnecessary and excessive risks that threaten the value of BNY Mellon or benefit individual employees at the expense of shareholders or other stakeholders.

6.3 Remuneration components

Fixed remuneration: -
is composed of (i) salary, (ii) any additional amounts paid as a result of contractual obligations or applicable law, or as a result of market practice, and (iii) any benefits in kind which are awarded as a result of the job rather than the performance within the job.

The fixed remuneration of an employee is determined by the job performed, its level of complexity and responsibility, and the remuneration paid in the market for that type of job. It is set, for all staff, at a rate to be at all times sufficient to provide for full flexibility in the variable remuneration, including a zero variable remuneration.

Employees who have accepted to be a director of another of BNY Mellon's legal entities are not remunerated in their capacity as a director. Independent directors of BNY Mellon only receive fixed remuneration, as disclosed in our annual Proxy Statement to shareholders.

6.4 Variable compensation funding and risk adjustment

The staff of PHUK are eligible to be awarded variable compensation. Such variable compensation consists of both cash and deferred components and is determined by the functional hierarchy of the business or business partner service to which the individual staff member belongs, and in accordance with the terms and conditions of the incentive compensation plan that is applicable for the business or business partner service.

The deferred component is intended to align a portion of the variable compensation award with the management of longer term business risk. The deferred compensation component is generally awarded in the form of restricted stock units.

Furthermore, BNY Mellon requires employees who receive awards to agree to clawback and/or forfeiture provisions on such awards in the event of fraud or conduct contributing to financial restatement or other irregularities.

6.5 Deferral policy and vesting criteria

The deferred component of the variable compensation award is generally delivered as restricted stock units whose value is tied to The Bank of New York Mellon Corporation, Inc.'s share price. The percentage of the variable compensation award to be deferred depends on the level of the position and the amount of the award. For regulated staff, the variable compensation portion of an award is broken out in four different parts: upfront cash, upfront equity, deferred cash and deferred equity, in order to comply with local regulations. All such deferred awards are subject to terms and conditions that provide for forfeiture or clawback in certain circumstances.

6.6 Variable remuneration of control function staff

The variable compensation awarded to control function staff (e.g. audit, legal and risk) is dependent on performance which is assessed according to the achievement of objectives specific to their functional role which is independent of the activities they oversee. This remuneration is benchmarked against the market level and funded independently of individual business line results and adjusted based on BNY Mellon's overall annual financial performance.

6.7 Quantitative Remuneration Disclosure

The tables below provide details of the aggregate remuneration of ***Code*** Staff for ***PHUK*** for the year ending 31 December 2013.

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.

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

	Pershing		
	Investment Services £000s	Other[2] £000s	Total £000s
	6,613	1,816	8,429

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

Table 2: Aggregate remuneration expenditure for Code Staff in 2013 by remuneration type

	Pershing		
	Senior Management[2]	Other Code Staff	Total
Number of beneficiaries	8	11	19
Fixed remuneration (£000s)[1]	1,961	1,783	3,744
Variable remuneration (£000s)	4,157	528	4,685

1. Fixed remuneration includes base salary and any cash allowances.
2. Senior Management is comprised of legal directors and those holding the corporate title of Executive Vice President.

7 Glossary of Terms

The following terms are used in this document:

- **ALCO:** Asset and Liability Committee
- **AMA Scenarios:** Advanced Measurement Approach under the Basel II Operational risk
- **Basel II:** The June 2006 capital adequacy framework issued by the Basel Committee on Banking Supervision in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
- **BNY Mellon:** The Bank of New York Mellon
- **BNYMC:** The Bank of New York Mellon Corporation
- **CCR:** Counterparty Credit Risk
- **CRD:** Capital Requirements Directive
- **Credit and Operational Risk Management Committee (CORMC):** CORMC approves the credit and operational risk methodologies and assumptions that do not require review by the Risk Quantification Committee.
- **Credit risk mitigation (CRM):** A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.
- **Derivatives:** A derivative is a financial instrument that derives its value from one or more underlying assets, for example bonds or currencies.
- **Exposure:** A claim, contingent claim or position which carries a risk of financial loss.
- **Exposure at default (EAD):** The amount expected to be outstanding, after any credit risk mitigation, if and when a counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures.
- **High Level Assessment** (HLA)**:** An assessment of the quality of controls in place to mitigate risk and residual risk. Residual risk is assessed as High, Moderate to High, Moderate, Moderate to Low and Low with direction anticipated.
- **Institutions:** Under the Standardised approach, Institutions are classified as credit institutions or investment firms.
- **Internal Capital Adequacy Assessment Process (ICAAP):** The group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
- **Key Risk Indicator (KRI):** Key Risk Indicators are used by business lines to evaluate control effectiveness and residual risk within a business process.
- **Residual maturity:** The period outstanding from the reporting date to the maturity or end date of an exposure.
- **Risk appetite:** A definition of the types and quantum of risks to which the firm wishes to be exposed.
- **Risk and Control Self-Assessment (RCSA):** Risk and Control Self-Assessment is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls.
- **Risk Governance Framework:** The PHUK 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
- **PRC:** Pershing Risk Committee which meets on a monthly basis to provide governance on risk related items arising from the business of the group
- **Standardised approach:** In relation to credit risk, a method for calculating credit risk capital requirements using external credit assessment institution ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

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2013 PILLAR 3 DISCLOSURE

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