2013 PILLAR 3 DISCLOSURE

PERSHING SECURITIES INTERNATIONAL LIMITED

BNY MELLON

Pillar 3 Disclosure

Pillar 3 disclosures are published in accordance with the requirements of the Central Bank of Ireland.

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 Securities International Limited's ultimate parent undertaking. As such, these disclosures have been prepared for Pershing Securities International Limited ("PSIL").

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

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

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 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.

Table of Contents

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 Securities International Limited and are published in accordance with the requirements of the Central Bank of Ireland. PSIL uses the Basel II Standardised Approach for calculating credit, market and operational risk.

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

These disclosures were approved for publication by the Pershing Securities International 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 PSIL:

- The Company intends to develop its relationships with clients that fall within its target market and supports the Pershing Limited's policy to continue to invest in the systems, equipment and management infrastructure, which are required to sustain its activities and grow business in partnership with the Company's clients. However, in the current economic environment in Ireland the directors will be focussing on expense management and keeping the market under review to identify opportunities that will enhance and develop the Company's business.

2 Scope and Application of Directive Requirements

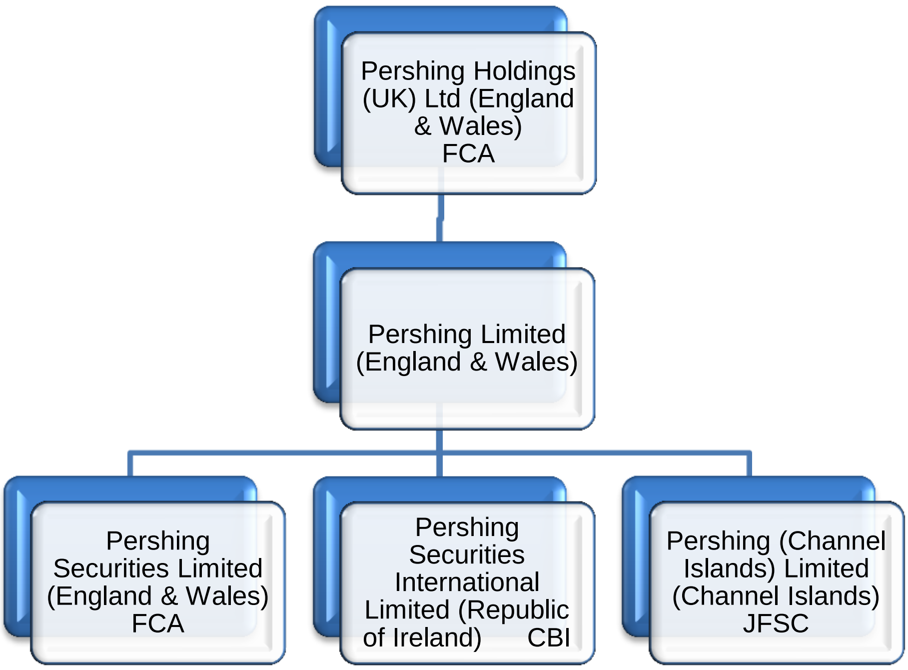
Pershing Securities International Limited is the Dublin based, wholly owned subsidiary of Pershing Limited, which is, in turn, a subsidiary of Pershing Holdings (UK) Limited with the Bank of New York Mellon Corporation as the ultimate parent.

As a full scope investment firm regulated by the Central Bank of Ireland (CBI), Pershing Securities International Limited is required to operate under the CBI's Basel II implementation rules, which include the disclosures provided in this document.

There are no current or foreseen material or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings.

The corporate structure of PSIL is illustrated in Figure 1.

Figure 1: PSIL corporate structure



3 Risk Management Objectives and Policies

3.1 Risk Management Framework

Pershing shares a common framework of risk management objectives and policies with other subsidiaries of Pershing Holdings (UK) Limited. Please refer to section 3 of the Consolidated Disclosures for further details on the management policies & processes implemented.

PSIL approach to risk management is to ensure that all material risks are defined, understood and effectively managed according to well-designed policies and controls. Due to reasons of operational efficiency, PSIL has outsourced many of its processing and support activities within the PHUK group. While PSIL Senior Management provides an oversight of these arrangements on a day to day basis, it was nevertheless agreed by the PLC Boards that a common risk framework and appetite would be the most effective and consistent means of managing risk across the group.
The activities of PHUK group are managed on a business line basis, as opposed to a legal entity basis. PSIL's risk appetite requires the maintenance of an appropriate Risk Management Framework that promotes a risk-aware and

transparent culture and the identification, assessment, mitigation, measurement and escalation of risk and control issues.

PSIL'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.

3.2 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 could also arise from off-balance sheet items including counterparty credit risk and securities lending indemnifications and letters of credit identifying exposures (balance sheet and non-balance sheet).

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. 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.

3.2.1 *Credit Risk Exposure*

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.

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 PSIL.

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	3	2	18	1	-	-
Institutions	-	-	-	-	-	-
Corporates	-	-	-	5	-	-
Short term claims on Institutions and Corporates	27,959	21,381	24,794	21,925	416	337
Retail	150	148	241	242	-	-
Past due items	3	3	2	3	-	-
Other	24	31	27	33	2	3
Total	**28,139**	**21,565**	**25,082**	**22,209**	**418**	**340**

ii) 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	-	-	2,299	366	-	-	-	-	-	-	2,299	366
2	3	2	-	-	-	-	-	-	177	182	180	184
3	-	-	25,491	21,005	-	-	-	-	-	-	25,491	21,005
4	-	-	-	-	-	-	-	-	-	-	-	-
5	-	-	169	10	-	-	-	-	-	-	169	10
6	-	-	-	-	-	-	-	-	-	-	-	-
Total	**3**	**2**	**27,959**	**21,381**	-	-	-	-	**177**	**182**	**28,139**	**21,565**

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	-	-	2,299	366	-	-	-	-	-	-	2,299	366
2	3	2	-	-	-	-	-	-	177	182	180	184
3	-	-	25,471	21,005	-	-	-	-	-	-	25,471	21,005
4	-	-	-	-	-	-	-	-	-	-	-	-
5	-	-	111	10	-	-	-	-	-	-	111	10
6	-	-	-	-	-	-	-	-	-	-	-	-
Total	**3**	**2**	**27,881**	**21,381**	-	-	-	-	**177**	**182**	**28,061**	**21,565**

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

iii) 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.

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	3	2	-	-	-	-	-	-	3	2
Institutions	27,959	21,381	-	-	-	-	-	-	27,959	21,381
Corporates	-	-	-	-	-	-	-	-	-	-
Short term claims on Institutions and Corporates	-	-	-	-	-	-	-	-	-	-
Retail	150	148	-	-	-	-	-	-	150	148
Past due items	3	3	-	-	-	-	-	-	3	3
Other	24	31	-	-	-	-	-	-	24	31
Total	**28,139**	**21,565**	**-**	**-**	**-**	**-**	**-**	**-**	**28,139**	**21,565**

iv) 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	3	2	-	-	-	-	3	2
Institutions	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Short term claims on Institutions and Corporates	27,959	21,381	-	-	-	-	27,959	21,381
Retail	150	148	-	-	-	-	150	148
Past due items	3	3	-	-	-	-	3	3
Other	-	-	-	-	24	31	24	31
Total	**28,116**	**21,534**	**-**	**-**	**24**	**31**	**28,140**	**21,565**

3.2.2 *Capital Resource Requirement*

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

3.3 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.

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

3.4 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 PSIL, market risk arises principally from fluctuations in the value of assets, interest or exchange rates. PSIL'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. PSIL calculates the Pillar 1 market risk capital resource requirement for FX based on Standardised approach as defined in Capital Requirements Directive.

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.

3.4.1 *Capital Resource Requirement*

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

3.5 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 PSIL's operational risk is managed through rigorous operating policies, procedures and controls set by the Board and implemented by Risk Management.

PSIL 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 with the guidance of the Business and Risk Management. The risk management teams have an independent oversight role for this reporting.

The Board monitors operational risks and the appropriateness of controls through the PRC and independent reporting from risk managers. This requires PSIL 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 Pershing Risk Committee.

3.5.1 *Capital Resource Requirement*

The Pillar 1 variable capital requirement relates to credit risk and market risk, as well as to an expenditure-based requirement, the Fixed Overhead Requirement ('FOR').

The variable capital requirement is the higher of the sum of the credit risk and market risk requirements and the fixed overhead requirement.

3.6 Liquidity Risk

Liquidity Risk is the risk that PSIL 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 PSIL's liquidity risk profile and are considered in the liquidity risk framework.

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

PSIL 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.

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

PSIL 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.

PSIL has never suffered from a sanction event where the regulator has imposed a fine.

3.8 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

3.9 Concentration Risk

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

Traditionally analysed in relation to credit activities, concentration risk arises from exposures that may 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).

PSIL manages the following concentration risks:

- Credit
- Client
- Operational
- Market

3.9.1 *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.

PSIL 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 PSIL'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.

3.9.2 *Client Concentration Risk*

Client concentration risk remains stable. The company 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.

3.9.3 *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.

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

3.9.4 *Market Concentration Risk*

PSIL's business model is to facilitate client trading and settlement activity for financial services firms mainly within Ireland, therefore a natural concentration exists as regards a geographical and industry sector concentration within its business.

3.10 Group Risk

Group risk is the risk that the financial position of PSIL 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.

PSIL has group dependencies with PHUK group and BNY Mellon, including business leadership, dependency on certain IT systems and support services provided by central functions.

3.11 Interest Rate Risk in Non-trading Book

Interest rate risk (IRR) is the risk associated with changes in interest rates that affect net interest income (NII) from interest-earning assets and interest-paying liabilities. 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.

3.12 Legal Risk

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

PSIL 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.

3.13 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.

PSIL uses models in its risk management framework. All models are peer reviewed by BNY Mellon Credit and Operational Risk Management Committee (CORMC) and the BNY Mellon Risk Quantification and Modelling Committee. All models are controlled by the BNY Mellon model risk management process under the Model Risk Management Group who maintains the model inventory, and oversees model review. BNY Mellon Internal Audit reviews compliance with the corporate Model Validation Policy.

3.14 Pension Obligation Risk

Pension Obligation Risk is caused by contractual liabilities or moral obligation to a company's staff pension schemes. BNY Mellon in EMEA operates a number of defined contribution and defined benefits pension arrangements where fixed contributions are paid into separate arrangements, typically to an insurer or trusts.

3.15 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. PSIL identifies and assesses the impact of reputation risk through its risk management processes and using scenario analysis.

3.16 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.

PSIL relies on robust governance processes to monitor and/or mitigate strategic risk. PSIL 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 Requirements and Adequacy

The following table details the Pillar 1 capital requirements by exposure class for PSIL as at 31 December 2013.

The Pillar 1 variable capital requirement is calculated as the higher of the sum of credit risk and market risk requirements and expenditure-based requirement, the Fixed Overhead Requirement ('FOR').

Table 5: Capital requirements by risk type

As at 31 December Capital Requirements and Adequacy (€000s)	**PSIL** **2013**	 **2012**
Credit Risk Standardised Approach		
Central Governments and Central Banks	-	-
Institutions	-	-
Corporates	-	-
Short term claims on Institutions and Corporates	416	337
Collective Investment Undertakings	-	-
Other	2	3
Total Credit Risk capital requirement	418	340
Market Risk		
Foreign currency Position Risk Requirement	10	51
Total Market Risk capital requirement	10	51
Total variable capital requirements	428	391
Total fixed overhead capital requirements	919	998
Total Pillar 1 Capital Requirements ***(higher of variable captial requirement and fixed overhead requirement)***	919	998
Capital surplus	17,981	15,612
Total Capital Resources / Total Pillar 1 Capital Requirements	**2057%**	**1664%**

5 Remuneration Disclosure

PSIL does not deal on own account or underwrite and/or place financial instruments on a firm commitment basis. Taking into account the nature, scope, size, activities and risk profile of the firm, PSIL has applied neutralisation to certain requirements as permitted under CRD III.

PSIL has adopted a remuneration policy approved by the Board which is aligned to the firm's objectives and does not encourage undue risk taking. Any variable remuneration is adjusted, where appropriate, for risk and the use of capital.

6 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 PSIL 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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