



The Bank of New York Mellon SA/NV

Annual Accounts

December 31, 2019

TABLE OF CONTENTS

| | |
|---|-----------|
| KEY FINANCIAL FIGURES & LETTER FROM THE CEO | 4 |
| REPORT OF THE BOARD OF DIRECTORS | 11 |
| 1. Profile: The Bank of New York Mellon SA/NV | 13 |
| 2. External Factors Influencing BNY Mellon SA/NV | 16 |
| 3. Business Evolution in 2018 | 17 |
| 4. Structure and Corporate Governance | 19 |
| 5. Subsequent Event | 27 |
| 6. Proposal of Allocation of Net Income | 27 |
| 7. Contingent Liability | 27 |
| 8. Research & Development | 29 |
| 9. Risk Management | 29 |
| 10. Additional Information regarding BNY Mellon SA/NV | 29 |
| BOARD STATEMENT | 41 |
| INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BNY MELLON SA/NV | 45 |
| CONSOLIDATED FINANCIAL STATEMENTS | 55 |
| CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME | 57 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 61 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 66 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 70 |
| SIGNIFICANT ACCOUNTING POLICIES | 74 |
| 1. Significant Accounting Policies | 76 |
| NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | 95 |
| 2. Net Interest Income | 97 |
| 3. Net Fee and Commission Income | 98 |
| 4. Gains (Losses) on Non Qualifying Economic Hedges and Other Derivatives..... | 100 |
| 5. Other Operating Income | 100 |
| 6. Personnel Expenses | 100 |
| 7. Other Operating Expenses | 101 |
| 8. Income Tax | 102 |
| 9. Financial Assets and Financial Liabilities | 103 |
| 10. Cash and Cash Balances with Central Banks | 105 |
| 11. Loans and Advances to Customers | 106 |
| 12. Investment Securities | 106 |
| 13. Asset Encumbrance | 107 |

| | | |
|-----|---|-----|
| 14. | Derivative Financial Instruments | 108 |
| 15. | Other Assets | 109 |
| 16. | Property and Equipment | 110 |
| 17. | Goodwill and Other Intangible Assets | 111 |
| 18. | Financial Liabilities Measured at Amortized Costs | 112 |
| 19. | Other Liabilities | 114 |
| 20. | Provisions | 114 |
| 21. | Subordinated Liabilities | 115 |
| 22. | Retirement Benefit Plan | 115 |
| 23. | Issued Capital and Reserves | 121 |
| 24. | Fair Value of Financial Instruments | 121 |
| 25. | Share-based Payment | 125 |
| 26. | Other information | 126 |
| 27. | Related Party Disclosures | 130 |
| 28. | Risk Management | 134 |
| 29. | Capital | 161 |
| 30. | Subsequent events | 160 |

KEY FINANCIAL FIGURES & LETTER FROM THE CEO

This a summary of key figures extracted from the consolidated financial statements disclosed from page 45 onwards.

| | 2019 | 2018 |
|--|-------------------|-------------------|
| | In € '000 | In € '000 |
| STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME | | |
| Net interest income | 110,100 | 105,268 |
| Net fee and commission income | 427,907 | 418,038 |
| Profit before taxes from continuing operations | 109,355 | (148,383) |
| NET PROFIT FOR THE YEAR | 42,052 | (196,474) |
| | 2019 | 2018 |
| | In € '000 | In € '000 |
| ASSETS | | |
| Cash and cash balances with central banks | 10,754,991 | 6,238,261 |
| Derivative financial instruments | 158,006 | 295,091 |
| Loans and advances to customers | 8,834,550 | 6,535,177 |
| Investment securities | 12,696,318 | 12,517,744 |
| Other assets | 325,943 | 244,831 |
| Property, plant and equipment | 49,020 | 7,228 |
| Goodwill and other intangible assets | 32,291 | 9,291 |
| Tax assets | 29,460 | 53,220 |
| TOTAL ASSETS | 32,880,579 | 25,900,845 |
| LIABILITIES | | |
| Derivatives financial instruments | 162,565 | 304,085 |
| Financial liabilities measured at amortized cost | 28,986,413 | 22,298,108 |
| Other liabilities | 370,649 | 283,902 |
| Provisions | 167,308 | 15,140 |
| Tax liabilities | 54,683 | 27,130 |
| TOTAL LIABILITIES | 29,741,618 | 22,928,364 |
| TOTAL EQUITY | 3,138,961 | 2,972,480 |
| TOTAL LIABILITIES AND EQUITY | 32,880,579 | 25,900,845 |
| CLIENT ASSETS | | |
| Assets under custody (€ trillions) | 2.9 | 2.4 |
| TOTAL | 2.9 | 2.4 |
| PERSONNEL | | |
| Number of employees (full time employee equivalent) | | |
| <i>In Belgium</i> | 560 | 604 |
| <i>Abroad</i> | 986 | 858 |
| TOTAL | 1,546 | 1,462 |

Letter from the CEO

The year 2019 has been a year of changes for The Bank of New York Mellon SA/NV (BNY Mellon SA/NV). During this year, in line with BNY Mellon's Group strategy, BNY Mellon affiliates completed the redirection of their global custody flows to the BNY Mellon US Banking entity's global sub-custody network with the exception of the European T2S markets where BNY Mellon SA/NV is directly connected. This disintermediation of BNY Mellon SA/NV in the custody chain of the group has led to a significant decrease of 27% of intercompany revenues coming from the Group.

In preparation for Brexit, EU27 clients from other Group entities have been transferred to BNY Mellon SA/NV. In anticipation of it closing, clients of BNY Mellon SA/NV's London branch have been migrated to the Group's London Branch. We have also added new products to our offering including securities lending and collateral management. These initiatives have resulted in a positive impact on revenues by 20%.

At the end of November BNY Mellon SA/NV merged with BNY Mellon Trust Company (Ireland) Limited and integrated its activities in the BNY Mellon SA/NV Dublin Branch.

In terms of its strategy, BNY Mellon SA/NV is a global custodian and fund servicing entity for EU27 clients and is a contracting entity for other business lines within the BNY Mellon Group (Markets, Issuer Services, Clearance and Collateral Management). As referred to above, BNY Mellon SA/NV is also the Group's sub-custody bank for providing access to T2S.

Overall, a return on equity of 5.9% was achieved in 2019 (excluding an one-off Withholding Tax Claim provision of €149.6 million). Our net fee and commission income increased by 2.6% in 2019 driven by the execution of our Brexit preparation. Our net interest income increased by 5% in 2019. In comparison with 2018 our balance sheet increased by 27%. To note, our investment portfolio remained stable at year-end.

Our strategy, business model and organizational design enable us to be responsive to environmental factors and forces driving change, which remained dominated by regulatory, political and economic events including the United Kingdom's decision to leave the European Union.

BNY Mellon SA/NV is strongly capitalized, above regulatory limits. Total Regulatory Capital at the end of 2019 was 3,399 million euros before integration of the 2019 results (vs 3,299 million euros at the end of 2018). We are one of the banks displaying the highest Total Regulatory Capital ratio in the Single Supervisory Mechanism for banking supervision in Europe. At the end of December 2019, CET1, the Common Equity Tier 1 ratio, was 65.9% (vs 77.3% at the end of 2018) and the Total Capital ratio was 73.2% (vs 86.3% at the end of 2018). The decrease comes from an increase in Credit Risk Weighted Assets driven by our balance sheet increase (27% year-on-year).

We support clients and deliver Investment Services: Asset Servicing, Issuer Services (Corporate Trust, Depository Services), Clearance and Collateral Management (Broker Dealer Services, Global Collateral Management) and Markets (Foreign Exchange, Securities Lending, Liquidity Services and Segregation) products through our Branch and Subsidiary network in Belgium, Germany, The Netherlands, Ireland, Italy, France and Luxembourg. The European business and footprint is a key component of the Group's business and strategy, as BNY Mellon SA/NV is the gateway to its European clients. We have undertaken, and continue to undertake, adjustments to the operations of BNY Mellon SA/NV so that we may provide a wide range of services to clients domiciled in the European Economic Area.

Together with our employees, the Executive Team and the Board of Directors, we are working to support our clients and to continue to provide them with innovative and long-term solutions within the framework of the BNY Mellon Group and considering markets' developments.

Leonique Van Houwelingen
Chief Executive Officer



Leonique v. Houwelingen
CEO

REPORT OF THE BOARD OF DIRECTORS¹

¹ This report was established according to the article 3:32 of the Belgian Code on Companies and Associations (BCCA).

1. Profile: The Bank of New York Mellon SA/NV

The Bank of New York Mellon SA/NV (“BNY Mellon SA/NV” hereafter) is a wholly owned subsidiary of The Bank of New York Mellon. The Bank of New York Mellon is the main banking entity of The Bank of New York Mellon Corporation (BNY Mellon).

BNY Mellon is an NYSE listed financial holding company focusing its activities on Investment Management (Asset and Wealth Management) and Investment Services (Asset Servicing, Corporate Trust, Global Markets, Global Collateral Services, Depository Receipt Services and Broker Dealer Services). Investment Services represents approximately 95% of the fee revenues of BNY Mellon.

History

| | |
|------------|---|
| 30/9/2008 | The Bank of New York Mellon SA/NV incorporated as a Belgian public limited liability company. |
| 10/3/2009 | Banking license granted. |
| 1/10/2009 | Merger with BNY Mellon Asset Servicing BV leading to the creation of branches in Amsterdam, London, Frankfurt and Luxembourg and a representation office in Copenhagen. |
| 1/10/2010 | BNY Mellon acquired BHF Asset Servicing and FSKAG in Germany |
| 1/6/2011 | Merger with BNY Mellon Asset Servicing GmbH. FSKAG becomes fully an owned subsidiary. |
| 1/12/2011 | Creation of the Paris branch. |
| 12/2012 | Status of Assimilated Settlement Institution (Custodian Bank) granted. |
| 1/2/2013 | Merger with The Bank of New York Mellon (Ireland) Limited, creating the Dublin branch. |
| 1/04/2017 | Merger with The Bank of New York Mellon (Luxembourg) S.A. leading to the integration of the activities of The Bank of New York Mellon (Luxembourg) S.A into the existing Luxembourg branch and the creation of a branch in Milan. |
| 29/11/2019 | Merger with BNY Mellon Trust Company (Ireland) Limited. |

Headquartered in Brussels, BNY Mellon SA/NV distributes products and services through its branch network in Europe and is BNY Mellon’s largest banking subsidiary in the Europe, Middle-East and Africa (EMEA) region and focuses its activities on the Investment Services segment. Its main activity is Asset Servicing, which is provided both to third party and to internal clients within The Bank of New York Mellon group (BNY Mellon group).

BNY Mellon SA/NV is strategically important for the BNY Mellon group as it is the primary contracting entity for Asset Servicing in Europe. BNY Mellon SA/NV will be the custody bank for the European Union (EU) and the distribution channel for business lines servicing our target market of Collective Investment Schemes, Pensions, Banks and Corporates in the EU. In the role as custodian, BNY Mellon SA/NV acts as the custodian for EU assets for affiliate companies as well as the global custodian for clients in the EU. BNY Mellon SA/NV is also the servicing entity for Investment Services products for the BNY Mellon group. BNY Mellon SA/NV operates through its headquarters in Brussels, a network of seven branches, as well as a representative office in Copenhagen and a subsidiary in Germany (BNY Mellon Service Kapitalanlage-Gesellschaft). Any expansion across EU markets will be lead through the expansion of BNY Mellon SA/NVs branch network. Resources and funding over the next years will be dedicated to execute on regulatory driven initiatives, major corporate change programs and infrastructure developments.

In order to ensure full preparedness for Brexit, the BNY Mellon Group and BNYM SA/NV have been planning for a Hard Brexit scenario and have continued to monitor negotiations between the UK and the EU carefully. Based on its Operating Model, BNY Mellon remains favorably positioned to support its clients with stability and optionality through BNY Mellon SA/NV in the EU, BNY Mellon International Limited in the UK, as well as through branches of BNY Mellon's US Institutional Bank. BNY Mellon SA/NV's Brexit program ties to the Group's program.

The Investment Services segment generates substantial operational cash balances that are managed by the Treasury of BNY Mellon SA/NV that appropriately balance the risk/return rewards.

The client base of BNY Mellon SA/NV consists of international institutional clients investing in or issuing financial assets. Main client segments are pension funds, insurance companies, financial institutions and asset managers.

As any bank incorporated in Belgium, BNY Mellon SA/NV is subject to dual supervision: for conduct matters, this supervision is exercised by the Financial Services and Markets Authority (FSMA); for prudential matters, this supervision is exercised by the European Central Bank, together with the National Bank of Belgium, because BNY Mellon SA/NV is a significant bank within the Single Supervision Mechanism. As custodian bank, BNY Mellon SA/NV is also supervised by the National Bank of Belgium.

In the context of the regular review and audit, the regulators are formulating recommendations and BNY Mellon SA/NV is following up on these recommendations and has detailed plans to address them.

1.1. Business Model

BNY Mellon SA/NV's business model is consistent with the BNY Mellon's business model in providing investment services across the entire investment lifecycle and being largely fee-driven.

More than 85% of the revenue is provided by non-interest fee income, providing a more annuity-like revenue stream that is less sensitive to stress scenarios. This results in a stable deposit base and revenue streams, even during periods of market stress. In addition, BNY Mellon SA/NV experiences a low level of non-performing assets as a majority of its clients are large corporations and financial institutions. Furthermore, the bank is not active in lending but only in operational loans performed in the context of contractual settlement. Those exposures are covered through a lien on the assets. Our balance sheet is characterized by highly liquid assets and a robust capital structure. Furthermore, the balance sheet is liability driven and managed in a way that ensures access to external funding sources at competitive rates if it would be required in a stress condition. Overall BNY Mellon SA/NV's business model is structured in a way that benefits from periods of global growth.

1.2. Services and Products

Asset Servicing

Asset Servicing primarily comprises Global and Local Custody services but also includes Depository Services, Institutional Accounting, Fund Accounting, Transfer Agency services, Capital Markets Trading Desk, Derivatives 360° - Middle Office and Derivatives Margin Management, Middle Office Operations Services and Depository Receipts.

Global Custody is the main service provided by BNY Mellon SA/NV. It provides custodial services for clients including services selected and utilized by owners of securities (or their advisors) to assist in providing instruction capture, settlement, corporate actions and income and tax services related to their securities. Global Custody collects all revenues on behalf of its clients and alerts clients to take all required actions as owners.

As a result of the Brexit, client contracts have been novated or repapered for the following Asset Servicing Products:

- Custody
- Depositary
- Fund Administration
- Transfer Agency

BNY Mellon SA/NV is providing global custodian services primarily to European Economic Area based clients and BNYM SA/NV will remain a global custodian for BNY Mellon for the Target2 (direct) markets in Continental Europe.

As of 31 December 2019, BNY Mellon SA/NV had €2.87 trillion in Assets under Custody.

Issuer Services

Corporate Trust

BNY Mellon SA/NV offers Corporate Trust services, acting in a broad range of agency roles including, but not limited to: trustee, registrar, issuing and paying agent, common depository, exchange agent, custodian and collateral/ portfolio administration.

Depositary Receipts

BNY Mellon SA/NV Dublin Branch performs certain operational activities relating to Depositary Receipts, predominantly issuance and cancellation. Depositary Receipts facilitate cross-border investment solutions for companies and investors. They are negotiable financial securities issued by a bank to represent foreign companies' publicly traded securities, allowing them to have their stocks traded in foreign markets.

Clearance and Collateral Management

Broker-Dealer Services

Broker-Dealer Services - DTC Institutional Clearing and Global Clearing provides Settlement and Custody services for fixed- income and equity securities.

Collateral Management

BNYM SA/NV acts solely as a servicing entity providing services contracted by BNYM acting as tri-party agent for transactions related to securities lending and repurchase ("repo") agreements, or acting as an administrator, providing segregation services for any type of transaction requiring segregation of collateral

Markets

Foreign Exchange

BNYM SA/NV provides passive currency hedging and negotiated foreign exchange services that enable clients to achieve their investment, financing and cross-border objectives.

Liquidity Services and Segregation

BNYM SA/NV provides sales and client service to clients enabling clients to view, transact and generate reporting for their daily liquidity activities via an on-line platform.

Securities Finance

BNYM SA/NV provides standard agency lending including third party lending; cash reinvestment and agency cash investment products

BNY Mellon SA/NV provides most of these products to its international client base. BNY Mellon SA/NV clients contract with BNY Mellon SA/NV for all of the above services except Depositary Receipt Services. BNY Mellon SA/NV only provides the latter services to other legal entities within The Bank of New York Mellon (BNY Mellon) group. BNY Mellon SA/NV's main service is Global Custody (part of Asset Servicing).

The drivers of various businesses within BNY Mellon SA/NV are considered below:

- The drivers for financial results of the Asset Servicing business include:
 - a) Levels of client transaction activity;
 - b) Volatility of the securities markets; and
 - c) Market value of assets under administration and custody.
- Market interest rates impact the earnings on client deposit balances.
- Broker-dealer fees depend on the level of activity in the fixed income and equity markets and on the financing needs of clients, which are typically higher when the equity and fixed income markets are volatile.
- Foreign Exchange (FX) trading revenues are influenced by the volume of client transactions, the spread realized on these transactions, market volatility in major currencies, the level of cross-border assets held in custody for clients, the level and nature of underlying cross-border investments and other transactions undertaken by corporate and institutional clients.

Business expenses principally are driven by correspondent expenses, staffing levels and technology investments.

2. External Factors Influencing BNY Mellon SA/NV

Interest rates remained at a low level in 2019. The European Central Bank (ECB) cut its deposit facility rate by 10 bps to -0.50%. The ECB has introduced a two-tiered system for remunerating excess liquidity holdings and agreed to restart its Asset Purchase Program at a monthly pace of €20 billion as from 1 November. The Bank of England has kept Bank Rate at 0.75% after Brexit in 2019. The Federal Reserve rates have been decreased multiple times in the course of 2019 after several increases in 2018.

Despite the difficult market conditions, BNY Mellon SA/NV has succeeded to slightly increase its Net Interest Margin mainly due to negative interests re-charge to clients, and active management of the balance sheet and especially the securities portfolio.

The value of the US dollar was rather stable in 2019. The lowest exchange rate in 2019 was 1.0896 USD. The highest exchange rate in 2019 was 1.1551 USD and the average exchange rate in 2019 was 1.1199 USD.

“Brexit” is another key external factor that will influence BNY Mellon SA/NV.

But BNY Mellon has already taken the necessary steps in 2019 to prepare for the impact of these changes and has expanded its product and services that were previously offered from the UK only.

BNY Mellon is well-positioned against competition thanks to BNY Mellon Group's legal entities rationalization strategy. BNY Mellon has a unique selling proposition that fits the needs of our clients, with BNY Mellon SA/NV positioned as the "European Bank".

3. Business Evolution in 2019

3.1. Main Events

BNY Mellon has continued to implement its three-bank model in 2019.

The migration of BNY Mellon SA/NV's London Branch customers to BNY Mellon's London Branch was fully completed in the course of 2019 year.

The closure of the BNY Mellon Brussels Branch has resulted in the transfer of about 95% of BNY Mellon's Brussels Branch clients to other branches of BNY Mellon's US Institutional Bank and the remaining part to the BNY Mellon SA/NV. The outcome of these transfers has reduced the inter-affiliate client portion.

The Bank of New York Mellon International Limited's Luxembourg branch closed resulting in the migration of its client base to the BNY Mellon SA/NV's Luxembourg branch.

In preparation of Brexit the lines of business reviewed their product offering in the EU through BNY Mellon SA/NV and this has resulted in BNY Mellon SA/NV to expand its Clearance and Collateral Management, and its Markets product offerings.

The completion of BNY Mellon UK Trust and Depository initiative to transfer some BNY Mellon SA/NV clients into the Bank of New York Mellon International Limited ("BNYMIL") was fully completed. BNYMIL is now positioned to be the contracting entity for all UK fund clients for trustee or depository services.

Finally, on November 29th the BNY Mellon Trust Company (Ireland) Limited was merged with BNY Mellon SA/NV and its activities were integrated into the existing Dublin Branch of BNY Mellon SA/NV.

3.2. Analysis of Financial Figures

The net profit after tax of BNY Mellon SA/NV amounted to €42.1 million in 2019, up by 121% compared to the net income of -€196.5 million in 2018, resulting in a positive 1% return on equity in 2019 (vs negative 7% in 2018). Considering that the reported loss in 2018 was explained by the impairment of goodwill and intangibles of €403 million, and the reported income in 2019 is impacted by a one-off "cum-ex" provision relating to Withholding Tax Claims of €149.6 million; if we exclude this exceptional charge, the profit before tax is up 2% in 2019. Trust fees coming from external clients have increased by 20% in 2019 driven by increases of 18% in ADR, 15% in Asset Servicing and 8% in Corporate Trust fees. About 29% of the increase in 2019 trust fees are coming from products (securities lending and collateral management) which were added to the BNYM SA/NV product offering in 2019 as part of our preparation for the Brexit.

The 2019 results are reflecting the client migrations resulting from planned 2019 strategic initiatives. In 2019, 34% of the non-interest income is coming from the BNYM Group in comparison to 43% in 2018. Overall the non-interest income has reduced by 7%.

Excluding the one-off "cum-ex" Provision as mentioned above, direct expenses have reduced by 1% in 2019 and overall expenses reduced by 8%.

The balance sheet has largely increased at year-end of 2019 at spot by 27%. The movement is mainly explained by the increase of third party deposits (at spot) by €4.4 billion, of which €3.3 billion is coming from the transfer of clients from the Luxembourg branch of BNY Mellon International Limited into the Luxembourg branch of BNY Mellon SA/NV; and increase in intercompany deposits by (at spot) €2.3 billion. On the assets side the increase is mainly reflected by (at spot) €4.5 billion increase in Central Bank placements, a €1.6 billion increase in intercompany nostro & placements and a € 1.0 billion increase in third party nostro & placements.

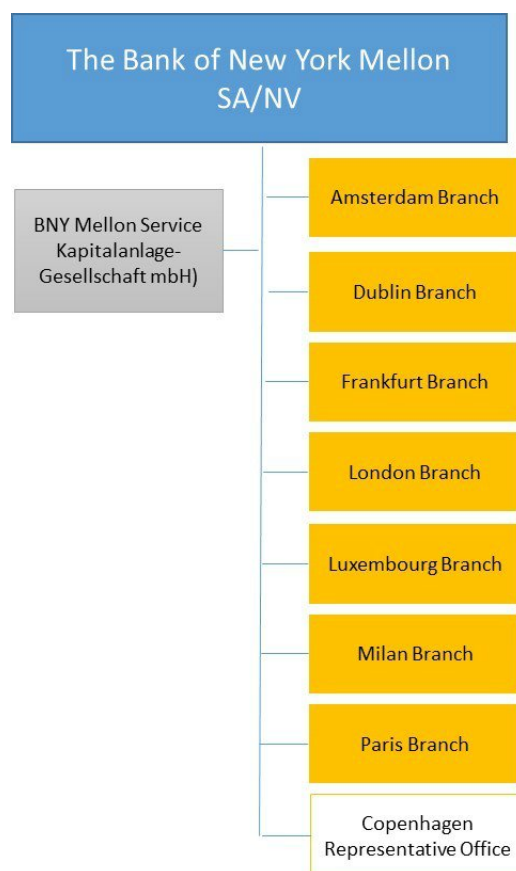
BNY Mellon SA/NV's net interest income is up by €4.8 million (+5% increase vs 2018).

The positive net results after tax has resulted in a positive return on assets of 0.1% in 2019 (vs negative -0.8% in 2018).

4. Structure and Corporate Governance

4.1. Structure of BNY Mellon SA/NV

As at 31 December 2019 BNY Mellon SA/NV has seven branches across Europe, a representative office in Copenhagen and a subsidiary based in Frankfurt². The structure of BNY Mellon SA/NV is shown below.



Shareholding Structure and the agenda of the General Meetings

The shareholder structure of BNY Mellon SA/NV is given in the table below.

| <i>Shareholder Structure on 31 December 2019</i> | <i>Number of ordinary shares</i> | <i>%</i> |
|---|----------------------------------|----------|
| The Bank of New York Mellon (BNY Mellon) | 1,689,386 | 99.9999% |
| BNY International Financing Corporation (BNY IFC) | 1 | 0.0001% |
| Total | 1,689,387 | 100% |

² Due to their nature and activities, the following two legal entities were not taken into account:
 Stichting Administratiekantoor BNY Mellon Global Custody (The Netherlands)
 BNY Mellon Global Custody B.V. (The Netherlands)

These two entities are not material due to the fact that their sole reason for existence is to hold securities not listed in the Netherlands for Dutch clients to ring fence them from own securities as a result of the then applicable Dutch securities laws. However, as older contracts with Dutch clients still make reference to these entities, they are still in place.

The Bank of New York Mellon (“BNY Mellon”) is located at 240 Greenwich Street, New York, New York 10286, United States and is a subsidiary of The Bank of New York Mellon Corporation (the group’s holding company). BNY International Financing Corporation (“BNY IFC”) is a subsidiary of BNY Mellon. BNY IFC is located at the same address as BNY Mellon and holds 1 share of BNY Mellon SA/NV. The annual meeting of shareholders of BNY Mellon SA/NV is held each year on the last Tuesday of the month of May. The items on the agenda of the annual meeting of shareholders typically include:

- approval of the annual accounts and allocation of profits;
- review of directors’ report and statutory auditor’s report;
- appointment and resignation of directors;
- discharge of liability of directors and statutory auditor.

4.2. Composition and Activities of the Board and its Committees

The table below shows the members of the Board and its committees on 31 December 2019³:

| <i>Name</i> | <i>Position</i> |
|----------------------------|--|
| Non-Executive Directors | |
| Marie-Hélène Crétu | Independent Chair of the Audit Committee and Independent Member of the Remuneration Committee and Independent Member of the Risk Committee |
| Hani Kablawi | Member of the Remuneration Committee, Member of the Risk Committee |
| Olivier Lefebvre | Independent Chair of the Board of Directors, Independent Member of the Audit Committee and Independent Chair of the Nomination Committee and Independent Chair of the Remuneration Committee |
| Carol Sergeant | Independent Chair of the Risk Committee, Independent Member of the Audit Committee and Independent Member of the Nomination Committee |
| Todd Gibbons | Member of the Nomination Committee, Member of the Audit Committee |
| Executive Directors | |
| Leonique van Houwelingen | Chief Executive Officer Chair of the Executive Committee |
| Hedi Ben Mahmoud | Chief Risk Officer Member of the Executive Committee |
| Annik Bosschaerts | Chief Operations Officer Member of the Executive Committee |
| Eric Pulinx | Chief Financial Officer Deputy Chief Executive Officer Member of the Executive Committee |

³ The Board recommended to the shareholders the appointment of Susan Revell as Non-Executive Directors of the Company, and Roderick Munsters as Independent Non-Executive Director of the Company, subject to regulatory approval. This approval hasn’t been provided yet.

The Board appointed Todd Gibbons as a member of the Audit Committee and Hani Kablawi as a member of the Risk Committee, subject to regulatory approval. These approvals have been received on 25th March 2020.

Changes in the composition of the Board and the Committees in 2019

During the year 2019, the main changes to the composition of the Board and its Committees were:

- As of 28 May 2019, the directorship mandate of Peter Johnston was terminated.
- On 2 August 2019 Thomas (Todd) Gibbons was appointed as member of the Board of Directors and member of the Nomination Committee.

Report on the activities of the Board

The primary responsibilities of the Board of Directors are to define the strategy and risk policy of BNY Mellon SA/NV and to supervise BNY Mellon SA/NV's management.

The main duties and responsibilities of the Board of Directors of BNY Mellon SA/NV include, but are not limited to:

- defining the general business strategy, objectives and values of the Company in line with these of The Bank of New York Mellon;
- plan and monitor the implementation of the general business strategy, objectives and values within the Company;
- fixing the Company's risk tolerance level and regularly reviewing and approving the strategies and policies relating to the taking, management, follow-up and mitigation of risks;
- supervising the management of the Company's significant risks and ensuring adequate resources are allocated to it;
- approving the capital adequacy position and ensuring changes in the Company consider capital impacts;
- approving the recovery plan;
- approving the liquidity recovery plan;
- supervising effectively the Executive Committee and the decisions taken by the Executive Committee;
- drawing up annual and interim reports and accounts;
- assessing regularly (at least once per year) the efficiency of the internal organization and system of internal control of the Company and its compliance with applicable laws and regulations;
- assessing the proper functioning of the Company's independent control functions (risk, internal audit and compliance); ensuring the integrity of the accounting and financial reporting systems and assessing regularly (at least once per year) the efficiency of the internal control structure, in particular regarding the financial reporting process;
- ensuring that the Company's internal governance - as translated into its Internal Governance Memorandum - is appropriate to its business, size and organization;
- approving the Internal Governance Memorandum and ensuring it is kept up-to-date and submitted to the supervisory authority;
- approving and reviewing regularly (at least once per year) the Company's remuneration policy, and supervising its implementation;
- selecting and evaluating the members of the Executive Committee and reviewing the process for the selection, evaluation, and development of other key managers (in particular the Chief Risk Officer, Chief Compliance Officer, Chief Internal Auditor);
- ensuring the succession planning for key managers;
- reviewing the Company's processes for protecting the Company's assets and reputation;
- approving policies and procedures as may be required by law or otherwise appropriate;
- reviewing the Company's processes for compliance with applicable laws, regulations and the internal policies including the Code of Conduct;
- overseeing the process of external disclosure and communications.

The structure of the Board's Committees and report on its activities

The Board has set up an Executive Committee exclusively composed of Board members entrusted with the general management of the Company with the exception of (i) the determination of the strategy and general policy of the Company and (ii) the powers reserved to the Board by Law or by the Articles of Association. The members of the Executive Committee are executive directors.

The Board may create advisory committees within the Board and under its responsibility in view of performing its responsibilities more efficiently. As at 31 December 2019, the Board had four advisory committees: the Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee. Those committees must be established by the Board in accordance with the requirements of the Belgian Banking Law.

The Audit Committee assists the Board in fulfilling its oversight responsibilities in respect of: (i) the integrity of the BNY Mellon SA/NV financial reporting process and financial statements; (ii) the efficiency of BNY Mellon SA/NV internal control and risk management systems, (iii) the performance of the BNY Mellon SA/NV internal audit function, and (iv) the statutory auditor's qualifications, independence, provision of additional services and performance.

The Risk Committee advises the Board on the Company's overall current and future risk appetite and strategy and assists the Board in overseeing the implementation of that risk strategy by the Executive Committee. The Risk Committee also assists the Board in fulfilling its oversight responsibilities with regard to the risk management of BNY Mellon SA/NV, as well as the compliance with legal and regulatory requirements and the controls to prevent, deter and detect fraud.

The Nomination Committee makes recommendations to the Board with respect to the nomination of the BNY Mellon SA/NV's directors and to the composition of the Board and its committees.

The Remuneration Committee assists the Board in fulfilling its responsibilities in respect of remuneration within BNY Mellon SA/NV including its branches and subsidiary. The Remuneration Committee's main duty is to advise the Board in defining the Remuneration Policy of BNY Mellon SA/NV. The Remuneration Committee is in charge of the preparation of Board's decisions relating to the remuneration, in particular where such remunerations have an impact on BNY Mellon SA/NV's risks and risk management, including the remuneration of the heads of the independent control functions. The Remuneration Committee is also responsible for reviewing: (i) BNY Mellon SA/NV's remuneration policy statement ("Remuneration Policy Statement") in light of applicable laws, regulations and Corporate policies; (ii) the compensation plans ("Compensation Plans") applicable within BNY Mellon SA/NV against the Remuneration Policy; and (iii) practices, including awards paid, in light of the Remuneration Policy, applicable laws and regulations and Corporate policies.

The Executive Committee ("ExCo") of BNY Mellon SA/NV has been established by the Board of Directors in accordance with Article 24 of the Act of 25 April 2014 on the status and oversight of credit institutions and Article 7:121 of the Belgian Code on Companies and Associations (BCCA). The ExCo has been entrusted with the general management of BNY Mellon SA/NV with the exception of (i) the determination of the strategy and general policy of BNY Mellon SA/NV and (ii) the powers reserved to the Board by Law or the Articles of Association. The ExCo is responsible for running the general management of BNY Mellon SA/NV within the strategy and the general policy defined by the Board and for ensuring that the culture across BNY Mellon SA/NV facilitates the performance of business activities with integrity, efficiency and

effectiveness. The ExCo shall review corporate initiatives including strategic initiatives, financial performance, new business initiatives, policy changes, controls and organizational development. The ExCo has responsibility across all Lines of Business performed in or that impact BNY Mellon SA/NV and its branches and subsidiary.

In addition, the ExCo may create sub-committees under its responsibility and delegate them some of its responsibilities in view of performing its responsibilities more efficiently. Responsibilities were delegated by the ExCo to the following sub-committees:

- Risk Management Committee
- Belgian Asset and Liability Committee
- Credit Risk Oversight Committee
- Capital and Stress Testing Committee
- Business Acceptance Committees

4.3. External Functions Performed Outside of the Group

The following table provides an overview of the external functions performed outside of the BNY Mellon group by the directors (as at 31 December 2019):

| Board Member | Function at BNY Mellon SA/NV | Name of the other company in which an external function is exercised | Location (country) | Type of activities | Listed company (Y/N) | External mandate (title) | Capital connection with SA/NV (Y/N) |
|--------------------------------|---|--|--------------------|-------------------------------------|----------------------|----------------------------|-------------------------------------|
| Non-Executive Directors | | | | | | | |
| Olivier Lefebvre | Independent Chair of the Board of Directors, Independent Member of the Audit Committee, Independent Chair of the Remuneration and Nomination Committees | An other look to efficiency SPRL | Belgium | Management company | N | Administrator | N |
| | | Climact SA | Belgium | Environmental consultancy | N | Chairman of the Board | N |
| | | Ginkgo Management SARL | Luxembourg | Real Estate Fund Management | N | Independent Director | N |
| | | Ginkgo Management II SARL | Luxembourg | Real Estate Fund Management | N | Independent director | N |
| | | Perma-Project SPRL | Belgium | Support to starters in Permaculture | N | Director | N |
| Marie-Hélène Cretu | Independent Chair of the Audit Committee, Independent Member of the Remuneration and Risk Committees | CoDiese | France | Finance consultancy | N | President | N |
| | | Global Reporting Company | United Kingdom | Finance consultancy | N | Director | N |
| | | PREF-X SAS | France | Finance consultancy | N | Director | N |
| | | Montpensier Finance | France | Assets Management Company | N | Independent Director | N |
| Carol Sergeant | Independent Chair of the Risk Committee, Independent Member of the Audit and Nomination Committees | Danske Bank A/S | Denmark | Financial services | Y | Vice Chairman | N |
| | | Threadneedle Solutions Limited | United Kingdom | Private Company | N | Director | N |
| | | Belmont Green Finance Ltd | United Kingdom | Financial Services | N | Sr. Non-Executive Director | N |
| Thomas (Todd) Gibbons | Member of Nomination and the Audit Committee* | | | | | | |
| Hani Kablawi | Member of the Remuneration and Risk* Committees | Arab Bankers Association London, UK | United Kingdom | Financial services | N | Board Member | N |
| Executive Directors | | | | | | | |
| Leonique van Houwelingen | Chief Executive Officer and Chair of the Executive Committee | Foreign Bankers' Association (FBA) | The Netherlands | Trade association | N | Non-executive Chair | N |
| | | American Chamber of Commerce | Belgium | Trade association | N | Board Member | N |
| Hedi Ben Mahmoud | Chief Risk Officer and Member of the Executive Committee | | | | | | |
| Annik Bosschaerts | Chief Operations Officer and Member of the Executive Committee | | | | | | |
| Eric Pulinx | Chief Financial Officer, Deputy Chief Executive Officer and | Delen Private Bank | Belgium | Credit institution | N | Independent director | N |
| | | Finax | Belgium | Financial holding | N | Independent director | N |

Note: The appointment of Susan Revell as non-executive directors have not been approved by the Belgian National Bank/Central European Bank and the shareholders of BNY Mellon SA/NV yet. The appointment of Susan Revell had however been recommended to the shareholders by the Board in July 2019, subject to regulatory approval, and she has been actively participating

to the Board meetings since November 2019, in agreement with the Belgian National Bank and the Central European Bank. As this appointment was not approved before 31 December 2019, this director is not included in the table above.

No director has declared a personal conflict of interest that would give rise to the application of article 523 of the Belgian Companies Act.

4.4. Individual and Collective Competency/Skills

In order to ensure that the members of the Board Committees have individually and collectively the adequate skills in order for each Board Committee to properly fulfill its role and duties, the Nomination Committee reviewed the composition of the Board Committees.

The Nomination Committee confirmed that the respective membership of the following Board Committees is adequate in order for such Board Committees to be collectively competent to fulfill the following respective responsibilities and for each of its respective members to have the necessary skills, knowledge and experience to understand and assess the following respective aspects:

- the **Audit Committee** for the review of the Company's financial reporting activities, accounting and audit;

The Chair of the Audit Committee, Marie-Hélène Crétu is an independent non-executive director. She has over 30 years of diversified and multicultural leadership and managerial experience mostly in the financial industry, with proven track record in defining strategy and value proposition, creating business start-ups or reorganising the business and managing operations until self-supporting. Mrs. Crétu has significant experience in finance, operations, audit and compliance in various financial company environments, with extensive international exposure through global project leadership and company directorship and strong knowledge of global cash and derivatives markets and their key players. She held various leadership positions at Cargill Investor Services Paris, London and Chicago during 10 years, a global clearer on derivative markets. Mrs. Crétu worked for Ernst & Young as an auditor and for exchanges (MTS, NYSE-Euronext), defining and implementing strategy and business development.

- the **Risk Committee** for the review of the Company's risks and system of internal controls;
- the **Nomination Committee** for the exercise of relevant and independent judgment on the composition and functioning of the Board and its Committees and the suitability of the committees' members; and
- the **Remuneration Committee** for the exercise relevant and independent judgment on the Company's remuneration policy and on the incentives.

As part of this exercise, the Nomination Committee also reviewed the chairmanship of each of those Board Committees. Further to the review of the general composition of the Board and its committees and the suitability assessments of those directors exercising responsibilities on the Board Committees, the Nomination Committee concluded that each director is fit and proper for their respective functions and that the Board Committees possess collectively the necessary balance of skills and experience to adequately fulfill their respective role and responsibilities.

The membership of each director in Board committees is available in section 4.3. of this report.

5. Subsequent Event

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various governments and institutions around the world responding in different ways to address the outbreak. There are meaningful direct and indirect effects developing and the Company will continue to monitor the impact of the outbreak on its business and operations. The outbreak could result in reduced capital markets activity, lower asset price levels, disruptions in general economic activity, or in financial market settlement functions, which could negatively impact the business and results of operations, or realizable value of assets.

We have reacted quickly to the pandemic and instructed our full workforce to work from home. Our IT infrastructure is supporting this new way of working and we are otherwise operating business as usual without disruption to business continuity or outsourced operations.

This crisis is considered a non-adjusting event with respect to the 2019 financial statements. As of the date of this report, there are no indicators of significant impairment to the Company's financial and non-financial assets nor significant loss contracts or credit risk exposures as a result of this event. The Company has experienced an increase in balance sheet obligations during the first quarter of 2020, which is attributable to changes in customer behaviour of investing more in cash during current market turbulences. Although the balance sheet increase is technically increasing our capital consumption, we have a significant buffer and a very prudent replacement of excess cash, mainly at the ECB. Similarly, although credit spread increases in the market negatively impact our Pillar 2 ratios, we have significant buffers in place to help address the risk of adverse financial impact from the effects of the ongoing pandemic. There remain a number of uncertainties about the full impact of the crisis on the 2020 financials and we are monitoring the developments closely.

6. Proposal of Allocation of Net Income

The net profit for the year amounts to €42 million. Retained earnings as of the end of 2019 amount to €1,269 million.

No dividend is distributed on the profit of 2019.

| <i>Allocation of Loss</i> | <i>In Mio €</i> |
|------------------------------|-----------------|
| Profit of the current year | 42 |
| Dividend of the current year | — |
| Profit brought-forward | 42 |

The Board has formally adopted a (non-)dividend policy by which all profits are systematically carried forward and recommended the same for approval to the shareholders' meeting. On 17 May 2011, the shareholders unanimously ratified this Board resolution. During 2019, the Board continued to apply the (non-)dividend distribution policy.

7. Contingent Liability

Claims – Legal actions

In 2013 a Swedish Arbitral Tribunal issued an award of over USD500m against the Republic of Kazakhstan ("RoK") in favour of Anatolie Stati, Gabriel Stati, Ascom Group S.A. and Terra Raf Trans Trading Ltd (together the "Stati Parties"). This award has been upheld by the Swedish Supreme Court. The Stati Parties have sought to legally enforce this award in numerous jurisdictions against RoK's assets held by any party. In October 2017 BNYM SA/NV London Branch ("SA/NV") was served with a conservatory garnishment order in Belgium, ordering SA/NV to freeze certain assets belonging to RoK and its National Fund. Accordingly, and in compliance with SA/NV's legal obligations, SA/NV froze assets held by its client, the National Bank of Kazakhstan ("NBK"), for the National Fund. On 25 May 2018 the amount of the Belgian freeze was reduced, but remains in place pending the outcome of further legal proceedings in England regarding the nature of the relationship among RoK, NBK and SA/NV and the accuracy of SA/NV's prior statements as the garnishee in the Belgian proceedings. No damages are sought against the SA/NV and the claim being brought is declaratory in nature only. On 22 April 2020 the English Court handed down judgment and determined certain English law questions in what has become a complex dispute litigated in several countries. However, certain questions concerning the relationship between RoK/NBK have been referred the matter back to the Belgian court. Previously, the English High Court and Court of Appeal dismissed NBK/RoK's lawsuit against SA/NV where court rulings were sought stating that SA/NV were not contractually entitled to freeze the assets in question. No provision has been booked.

German authorities are investigating past "cum/ex" trading, which involved the purchase of equity securities on or shortly before the dividend date, but settled after that date, potentially resulting in an unwarranted refund of withholding tax. German authorities have taken the view that past cum/ex trading may have resulted in tax avoidance or evasion. The Bank of New York Mellon SA/NV ("BNY Mellon SA/NV") and BNY Mellon Service Kapitalanlage-Gesellschaft mbH ("BNYM KAG") have been informed by German authorities about investigations into potential cum/ex trading by certain third-party investment funds, where BNYM SA/NV had acquired entities that served as depositary and/or fund manager for those third-party investment funds. BNY Mellon SA/NV and BNYM KAG have received information requests from the authorities relating to pre-acquisition activity and are cooperating fully with those requests. Neither BNY Mellon SA/NV nor BNYM KAG have received any tax demand concerning cum/ex trading. In August 2019, the District Court of Bonn ordered that BNYM KAG be joined as a secondary party in connection with the prosecution of unrelated third parties. Trial commenced in September 2019, of which a decision is expected in 2020. In connection with the acquisition of the subject entities, BNY Mellon SA/NV obtained an indemnity for liabilities from the sellers that BNY Mellon SA/NV intends to pursue as necessary. The provision booked with respect to this legal matter has been determined based on management judgment of the most likely expenditure (including legal interest; no penalties are expected). There is estimation uncertainty in the final outcome of this legal matter.

The Dutch Tax Authorities ("DTA") are investigating a number of Dutch dividend withholding tax ("DWT") reclaims filed by BNYM as part of its global custody business between 2014 - 2017. BNY Mellon SA/NV provides DWT reclaim services in the Netherlands for clients who hold Dutch issued securities. The provision of these services by BNY Mellon SA/NV is via an electronic portal that is owned and controlled by the DTA. On 16 December 2019 BNYM SA/NV received tax assessments in the sum of €1.63Mio (including interest) for the year 2014. On 4 February 2020, BNY Mellon SA/NV also received formal tax assessments for the years 2015-2017 in the sum of €12.04Mio (including interest). These tax assessments relate to former BNY Mellon clients. This provision will be reimbursed by the Company of the Group that holds the contractual relationships with the clients for which a reimbursement asset has been accrued.

8. Research & Development

There are no research & development activities performed by BNY Mellon SA/NV.

9. Risk Management

BNY Mellon SA/NV acknowledges risk taking as a fundamental characteristic of providing financial services. It is inherent to the business of banking and arises in every transaction BNY Mellon SA/NV undertakes. The capacity to take risk and pursue profits is constrained by the balance sheet and the reputation of the BNY Mellon brand in the marketplace as well as by regulatory requirements.

BNY Mellon SA/NV's risk management framework maintains a capable, effective, adequately resourced and forward looking organization that is well placed to identify and manage emerging risks in a timely manner for BNY Mellon SA/NV.

The risk management function monitors and identifies emerging risks with a forward looking approach. It provides risk management information reporting to the BNY Mellon SA/NV Board and governance committees, and contributes to a "no-surprise" risk culture. It aligns closely with Compliance (second line of defense) and Internal Audit (third line of defense) plus Finance and Treasury (as first line of defense control functions). It independently educates staff, promotes risk awareness and continually makes improvements, whilst monitoring progress against defined success criteria for improving the effectiveness of the risk function.

Detailed information on the risks faced by BNY Mellon SA/NV, as well as our risk management strategies, policies and processes can be found in BNY Mellon SA/NV Pillar 3 report on www.bnymellon.com and in Note 28 to the consolidated financial statements.

10. Additional Information regarding BNY Mellon SA/NV

Non-Financial Information

The BNY Mellon Group has a strong policies framework in relation to social, environmental, human rights and anti-corruption matters. Corporate Social Responsibility supports BNY Mellon's vision to improve lives through investing. BNY Mellon's initiatives flow across the entire group, including BNY Mellon SA/NV, to reinforce its trusted brand, allow clients to work with a group whose values match their own, enable employees to feel good about where they work and improve lives in communities around the world. BNY Mellon publishes annually a report covering corporate social responsibility (CSR) and environmental, social and governance (ESG) topics. This year's report is entitled Corporate Social Responsibility 2019 Report: Powering a World of Difference, rather than CSR Annual Report. This report are not just about our social and environmental impact, but also about how BNY Mellon views and integrates ESG considerations across our operations. This is the 11th report using the Global Reporting Initiative's (GRI) framework, the world's most widely used sustainability reporting framework. BNY Mellon prepared the report according to GRI Standards Comprehensive option.

BNY Mellon is committed to using its reach, market influence and resources to address pressing global issues.

As a major global financial institution, BNY Mellon considers the impacts that its business has on the environment and society and in turn, how climate-related risks and societal needs present opportunities for the company.

There is global momentum to address climate change and other societal challenges and its related impacts with creative, concerted action. BNY Mellon contributes to this progress by striving to mitigate environmental risk and impact in our operations. The company adheres to policies that guide ethical action and adhere to global standards, including the protection of human rights for our partners and employees.

BNY Mellon strives to contribute to sustainable economic growth that protects healthy markets, enhances our own business resiliency and longevity, and delivers positive impact for key stakeholders such as clients, employees, stockholders and communities.

We help our clients manage their environmental, social and governance (ESG) related risks and opportunities, such as those relating to climate, by continuing to develop and offer ESG products and services.

BNY Mellon's policies framework, Corporate Social Responsibility strategy and Corporate Social Responsibility goals are fully applicable to BNY Mellon SA/NV and its personnel. Detailed information, including the 'Corporate Social Responsibility 2019 Report: Powering a World of Difference' available via following link (publication expected by 7 July 2020) : https://www.bnymellon.com/us/en/_locale-assets/pdf/csr/2019-csr-report.pdf

We draw attention to the fact that the content of the Corporate Social Responsibility 2019 Report may not entirely disclose information on the results of the policies in place, the main risks associated with the issues and the non-financial key performance indicators for the specific activities in relation to social and personal issues, environmental issues and respect for human rights and the fight against corruption as required by article 3:32, §2 (or 3:6, §4 for the annual report) of the Belgian Code on Companies and Associations (BCCA). The company continues to assess what best actions still need to be taken in the future to meet the requirements set forth by this article. For instance, the company adjusts its risk management approach to deal with a changing environment, and in 2020 will continue working toward reporting against the Task Force for Climate-related Financial Disclosures (TCFD) framework, an industry-led set of recommendations.

Within BNY Mellon SA/NV Headquarters several achievements were reached in 2019 by different Employees/Business Resource Groups among which are presented here in section 10.1.

Registered Office

The Bank of New York Mellon SA/NV
Rue Montoyer 46
1000 Brussels
Belgium

Corporate Headquarters

BNY Mellon
240 Greenwich Street
New York, NY 10286
United States

10.1 Local Testimonies - Corporate Social Responsibility

BRUSSELS EDITION

An Inside-Out approach to Diversity & Inclusion

Leonique van Houwelingen, CEO of BNY Mellon's European Bank, attended the official signing of the inaugural Belgian "Gender Diversity in Finance" Charter on June 17, 2019. Here, she shares the experience, her passion, and her views on how we can drive diversity and inclusion further.

Leonique: On June 17, I proudly stood with peers, clients and regulators from the financial services sector in Belgium for an auspicious happening - the signing of the Belgian "Gender Diversity in Finance" Charter, signifying the joining of forces as well as a pledge to achieve fair and equal opportunities for men and women at all levels across the industry.

The charter is a significant development not only for Belgium (as country we are quite small and have 25 firms sign up is impressive), but also for BNY Mellon's Diversity & Inclusion (D&I) priorities in EMEA. Our BNY Mellon team was a driving force behind the charter's creation, for which we can all be extraordinarily proud.



BNY Mellon at the signing of the Belgian "Gender Diversity in Finance" Charter in Belgium. (left to right) Sophie Dorsimont, Lucinda Wakefield, Leonique van Houwelingen, Rosa Scappatura, Katia Al Jbrail, Claudia Roosen, Sabrina Geens, Annik Bosschaerts

This is an important step forward, and we continue leveraging our company's commitment to D&I and drive more progress across EMEA, and globally, by:

- **Bucking the trend**

In Belgium, women hold just 25 percent of executive positions in the financial sector.* But in Brussels we are bucking that trend, with 50 percent of women on the board of the European Bank.

In signing the charter, BNY Mellon agrees to support the progression of women into senior roles by building a strong pipeline of talent within our business, setting clear targets, and most importantly, measuring ourselves against these goals.

- **Flying All the Colors of the Rainbow**

As a female senior leader, I naturally promote the advancement of women and support any initiative that would drive gender balance. I feel I owe that to the female community, not only Belgium, but also BNY Mellon as a whole.

An equally important part for me is in carrying out the role of Executive Sponsor of PRISM EMEA. I feel incredibly passionate about creating an environment where our employees feel safe to be themselves. PRISM, in particular, is a safe place for any employee to come out, should they wish to, without fear of discrimination.

My passion for equality stems from my upbringing. I come from a big family and my parents constantly instilled the right values in us - to stand up for what we believe in and to call out injustice. In a leadership role, I believe it's even more important to be seen doing this, to set the tone and the expectations for people to follow.

Culminating a month of PRIDE celebrations, recognitions and remembrance, our company hosted "WorldPride 2019: Leading the Way for Equality," a marquee industry event on June 25 at our global Headquarters in New York City.

The magnificent Amsterdam Rainbow Dress - a work of art stitched together from the flags of every country in the world where being part of the LGBT+ community is illegal - has been showcased. The dress symbolizes inclusiveness and calls for openness and sensitivity.

This is especially meaningful to me personally, having lived and worked in Amsterdam. I'm extremely proud to work for a company that is taking such a strong stance on this subject.

Influencing from the Inside, Out

The preceding are two extremely important examples that demonstrate how we are using our internal strengths and capabilities when it comes to our D&I approach and applying them externally - to add value to the communities we operate in and the wider, global society.

It becomes more meaningful, more powerful, when we use our collective voice to talk to an external audience.



BNY Mellon SA/NV Brussels awarded "Diversity Label" from Belgium employment Agency

BNY Mellon SA/ NV in Brussels has been recognised by Actiris, the Brussels public employment service, for their work around diversity and inclusion at the Belgium site.

Actiris awards a "Diversity Label" to local companies which demonstrate they have successfully implemented a diversity and inclusion (D&I) plan.

Key initiatives taken in Brussels last year including:

- Collaboration: The Brussels chapter of the employees resource group HEART (Helping Each Ability by Respecting and Teaching) working in collaboration with a not-for-profit organisation, hosted a workshop on disability awareness in January with a goal of recruiting potential employees with disabilities.
- Charters: BNY Mellon SA/NV in Brussels became one of the founding members of the Belgian Gender Diversity in Finance Charter in 2019 - aiming to achieve fair and equal opportunities for men and women at all levels across businesses in Belgium.

- Colleagues: The Brussels chapter of IMPACT (employees resource group with the mission to help cultivate a diverse and inclusive workplace culture that values and appreciates cultural diversity and difference) hosted refresher training sessions for all Brussels managers on unconscious bias and events such as Games Around the World.



- Events: Hosted panel discussion with Leonique van Houwelingen, CEO of the European Bank and EMEA Executive Sponsor for PRISM (LGBTQA employees resource group), on the importance of allies and D&I ambassadors.

“The Actiris award belongs to our wonderful team of employees here in the Brussels office who were instrumental in helping us achieve this accreditation. Our Brussels site is a great example of how our colleagues have collaborated to place D&I at the heart of what we do,” said Eric Pulinx, Chief Financial Officer and Treasurer of the European Bank.

“Our employee / business resource groups will continue to work on a number of initiatives that foster an inclusive workplace rich in diversity.”



Junior Achievement

Junior Achievement (JA) is the largest not-for-profit in Europe, dedicated to preparing young people for employment and entrepreneurship. For 100 years, JA worldwide has delivered hands-on experiential learning in entrepreneurship, work-readiness and financial literacy.

BNY Mellon has supported Junior Achievement for twenty years, now providing financial support in ten EMEA countries: Spain, France, Italy, Poland, U.K., Netherlands, Luxembourg, Belgium, Ireland and UAE—as well as skills-based support and board representation in the U.S.

Since the partnership began, BNY Mellon has funded over \$1.2 million to Junior Achievement in line with the company’s philanthropic strategy to help build the workforce of the future.

The BNY Mellon Community Partnership (CP) programme is designed to empower employees to support the community organisations that they care about - both financially and through volunteering their skills, experience and time. To encourage employee

participation, the company offers incentives that include generous matched funding and three days of paid volunteer time each year.

As we enter a fast-paced future filled with digital disruption, business transformation, automation and artificial intelligence, human acumen in problem-solving, leadership, adaptability, creativity and innovation is becoming an even more precious commodity. Fostering these as entrepreneurial capabilities is what our investment in the JA programmes is all about.

Over the last twenty years, entrepreneurship education at school in Europe has increased. In several countries, as many as 1 in 4 secondary school, students graduate with a full year of entrepreneurship training (Source - JA Europe).

In this sense, the Bank of New York Mellon in Brussels has engaged actively in two main JA projects:

1. The Mini-company programme: aimed at secondary school students who learn how to move a business idea from concept to reality. Business volunteers coach students throughout this yearlong venture and have a jury role in competitions.
2. The Young enterprise/start-up challenge: the Start Up Programme gives post-secondary students (aged 19 to 30) the opportunity to experience running their own company, giving them an insight into how their talents could be used to set up in business for themselves. They gain key understanding in self-employment, business creation, risk-taking and coping with adversity, all with the support of our experienced business volunteers.

| #Students reached in 2019 | #Volunteers In 2019 |
|---------------------------|---------------------|
| 880 | 60 |

2019 year in volunteering figures shows great enthusiasm from our employees - it was our pilot year. It is a win-win relationship where employees share their knowledge and experience with students. In return, they gain self-confidence, develop or perfect leadership and interpersonal skills.

Stepping up for the Next generation: a conversation with Leonique van Houwelingen - CEO of BNY Mellon SA/ NV and Board Member of JA Europe Our Broader Partnership with Junior Achievement

Our Broader Partnership with Junior Achievement

BNY Mellon has a long-standing partnership with Junior Achievement and has provided funding and skills-based support for over twenty years. Leonique van Houwelingen, CEO of the BNY Mellon's European Bank, was appointed as a board member of Junior Achievement (JA) Europe in November 2019.

How did you first become involved with JA Europe?

Leonique: I first became involved with Junior Achievement when the Brussels office kicked off the relationship with JA Europe last year. Our local JA coordinator invited me to be a mentor for the 'Leaders for a Day' event, which is part of the JA Entrepreneurship Skills Pass programme-an international qualification that certifies students have gained the necessary knowledge, skills and competences to start a business or to be successfully employed.

It was a very rewarding personal experience to meet these wonderful young people and offer them some business insights and advice at this early, critical point in their career development.



Why is it important for BNY Mellon to stay involved with organizations like Junior Achievement? How does it benefit our company?

Leonique: The relationship with JA Europe is part of BNY Mellon's wider philanthropic efforts. As a company, we focus on the areas where we can have the greatest impact on society-in this case, helping build and inspire the next generation of business leaders. We have a unique opportunity to have a positive impact on the lives of young people and nurture them to become work-ready for today, tomorrow and the future. After all, the next generation will be interviewing and taking positions here soon, and we want our company's future in good hands.

Can you explain what skills-based volunteering is? How is it specialized?

Leonique: When we say 'skills-based' volunteering and mentoring, we are talking about offering coaching and advising on specific soft skills based on the needs of the JA participant.

For example, project management, strategic thinking, communication and the ability to overcome challenges are non-academic skills, acquired mainly through experience. That is precisely what we volunteers have to share: experience acquired through working in multicultural and dynamic working environment-such as our company.

So the participants receive the benefit from your experience and workplace wisdom ...

Leonique: Exactly. But importantly-as many who are volunteers and mentors know-the participants and mentees are not the only ones who benefit from the experience; sharing your skills with a different audience like these young people can be hugely valuable in providing context for yourself. It makes for a meaningful change to your usual day-to-day activity.

Taking on a volunteer role also gives you the opportunity to further refine your own business skills, such as communication, problem solving and relationship building. It pushes you out of your comfort zone and exposes you to new opportunities. It's so vital that we take time to step up and contribute to our local communities.

From your experience, what do you think are the barriers for young people starting out in their careers?

Leonique: I would say receiving poor, or no, career advice early on, combined with a changing and challenging job market. Many young people struggle to successfully identify their options today, perhaps more than ever.

What more should BNY Mellon and other companies in the financial services sector be doing to inspire future generations?

Leonique: Businesses like ours need to recognise that in order to prosper, society needs to prosper. With more than three million young people under the age of 25-the group we identify as 'Generation Z'-unemployed in the EU-28 alone (*Europa.eu/Eurostat*), the financial services sector has the moral and practical obligation to become directly invested in building up this workforce of tomorrow.

We must engage more with young people; approach them more actively and inspire them. Because, how many times you have found yourself thinking, 'If only someone had told me this when I was in school, I would have chosen a better direction ...'?

Given your last comment, what advice would you give your younger self?

Leonique: Find your passion in life and never give up, never quit. Give yourself moments to reflect on what you want for yourself and focus on what makes you happy. Don't be afraid to step outside of your comfort zone-and be creative!

“Diverse Abilities at Work”, a HEART initiative

HEART is one of the D&I Employee Resource Groups represented in our Brussels office.

HEART (Helping Each Ability by Respecting and Teaching) promotes an inclusive working environment by increasing awareness of the needs of those with disabilities and providing an educational forum on disabilities for all employees.

With the support of a not-for-profit organization (Diversicom) and the Brussels region employment office (Actiris Diversity Service), the BNYM SA/NV HEART Brussels chapter has engaged into a two-year project of setting up a dedicated recruiting channel for people with disabilities. We have completed the Management Support and Staff Awareness phase in 2019.



Our staff is welcoming the initiative. In 2020, our Human Resources department will be involved in specific training sessions, and the recruiting channel framework will be put in place. We intend to welcome new colleagues and adapt our working environment as appropriate, starting with discovery internships.

BNYM SA/NV Brussels Head Office changed its company car policy into a mobility plan

Under the sponsorship of the local senior management team, a working group was set up in order to adopt a new mobility model not solely focused on company cars.

The initial phase started with a review of the car pool and the conclusion that BNY Mellon SA/NV Brussels Office had to promote the use of more eco-friendly vehicles as well as offering a range of alternative mobility means to the eligible employees.

Diesel cars have been banned. Aggressive CO2 emission ceilings have been imposed and a bonus/malus system incentivises employees to opt for eco-friendly vehicles. Eligible employees opting for zero emission vehicles are receiving a supplement of budget whereas those opting for vehicles nearing the imposed CO2 emission ceilings must allocate a portion of their budget to alternative mobility means.

Electric charging stations have been installed in the underground parking of the building for full electric and plug-in hybrid vehicles. Staff members opting for these vehicles have also been encouraged to install charging stations at their home.

Eligible staff members are being given the option to choose for a smaller eco-friendly car and use the remainder of the budget for alternative mobility means like electric bicycles and public transportation. Finally eligible staff members may also chose to fully allocate their budget to alternative mobility options. The number of dedicated parking spaces for bicycles in the building has been increased accordingly.

Whereas it will take several years to renew the whole car pool, some tangible changes in behaviours have been already noticed since the adoption of the new Mobility Plan. Two thirds of the new cars that have been ordered are either full electric or highly eco-friendly vehicles and about a quarter of the eligible employees have included alternative mobility means in their allocated budget.

Environmental sustainability in the office and ISO 14001 certification

- Electricity consumption decreased by -10.5% in January – September 2019 against the same period in 2018.
- Natural gas consumption decreased by -28% in January – September 2019 against the same period in 2018.
- In 2019 CO2 emission decreased by 45% against 2013 baseline for January – September period.
- 100% diversion from landfill has been achieved during 2019.
- In 2019 recycling rate was around 76%.

As part of its sustainability strategies, BNY Mellon uses globally recognized programs and standards as a foundation, including the ISO 14001 certification. In EMEA, BNY Mellon aims to expand the existing ISO 14001 certification held in UK and Ireland to additional sites in continental Europe.

After an initial environmental assessment and an internal audit carried out within the Brussels site in 2019, The Bank of New York Mellon SA/NV expects to receive ISO 14001 certification for the Brussels office in 2020.

In the Brussels office we have been implementing sustainable operations to manage our environmental responsibilities for more than a decade - including green cleaning, waste

management, indoor air quality, sustainable purchasing, energy and refrigerant management programs.

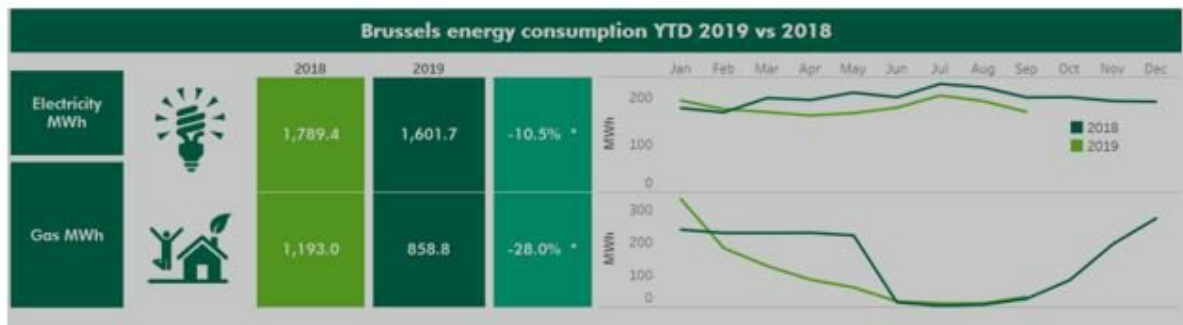
As a concrete example, in 2010, we were one of the first site to remove personal waste bins, to install adequate containers for waste collection and separation at strategic places in the building and to implement a waste management policy.

On this respect, in 2019, an awareness campaign on waste diversion and recycling was carried out among staff, in collaboration with the Brussels Sustainability team.

Another milestone in 2019 was the installation of professional dishwashers in every coffee corner and in the cafeteria with the aim to reducing significantly plastic consumption in Brussels office. Plastic cups are no longer provided in the office. Tableware comprising cups, glasses, plates and cutlery have been made available.

Other local initiatives have been organised by our Sustainability Ambassadors to increase sustainability in the office - for example the "Mobility Week". The BNY Mellon Mobility Week has been organised annually since 2016 and is very successful in terms of engagement. During this week, staff can get useful information on alternative mobility, in some cases try them for free, participate to challenges and win prizes, or have their bike repaired.

With the ISO 14001 certification as an objective, 2020 is another exciting year in terms of environmental sustainability for The Bank of New York Mellon SA/NV. Other local objectives closely related to this certification are in the pipeline such as implementing at least one energy and water efficiency project and one paper reduction initiative by end of the year.



Source: Brussels Performance report 2019 CBRE



Source: Brussels Performance report 2019 CBRE

ABOUT BNY 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. As of Dec. 31, 2019, BNY Mellon had \$37.1 trillion in assets under custody and/or administration, and \$1.9 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE: BK). Additional information is available on www.bnymellon.com. Follow us on Twitter [@BNYMellon](https://twitter.com/BNYMellon) or visit our newsroom at www.bnymellon.com/newsroom for the latest company news.

BOARD STATEMENT

The Board of Directors has the responsibility of establishing the annual accounts and consolidated financial statements of The Bank of New York Mellon SA/NV (BNY Mellon SA/NV) as of and for the year ended December 31, 2019 pursuant to Belgian law.

On 22 April 2020, the annual accounts and consolidated financial statements of BNY Mellon SA/NV were discussed at the Board of Directors.


The Board states that, to the best of its knowledge and in good faith, the BNY Mellon SA/NV's annual accounts and consolidated financial statements give a true and fair view of the financial position and of the results of BNY Mellon SA/NV and that the information provided does not include any omission in kind, significantly affecting the true and fair view of the annual accounts and consolidated financial statements.

The annual accounts and consolidated financial statements as of December 31, 2019 will be submitted for approval to the ordinary shareholders meeting to be held on 26 May 2020.

In 2019, there has been no decision taken by the Board, or the Executive Committee, which requires the respective application of Art. 7:96 of the Belgian Code on Companies and Associations (BCCA) on conflicts of interest.

Brussels, 22 April 2020

For the Board of Directors


Olivier Lefebvre
Chairman

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BNY MELLON SA/NV



Rapport du commissaire à l'assemblée générale de la société The Bank of New York Mellon SA sur les comptes consolidés pour l'exercice clos le 31 décembre 2019

Dans le cadre du contrôle légal des comptes consolidés de The Bank of New York Mellon SA (la «Société») et de ses filiales (conjointement « le Groupe »), nous vous présentons notre rapport du commissaire. Celui-ci inclut notre rapport sur les comptes consolidés pour l'exercice clos le 31 décembre 2019, ainsi que les autres obligations légales et réglementaires. Le tout constitue un ensemble et est inséparable.

Nous avons été nommés en tant que commissaire par l'assemblée générale du 29 mai 2018, conformément à la proposition de l'organe d'administration émise sur recommandation du comité d'audit et sur présentation du conseil d'entreprise. Notre mandat de commissaire vient à échéance à la date de l'assemblée générale délibérant sur les comptes annuels clôturés au 31 décembre 2020. Nous avons exercé le contrôle légal des comptes consolidés de The Bank of New York Mellon SA durant onze exercices consécutifs.

Rapport sur les comptes consolidés

Opinion sans réserve

Nous avons procédé au contrôle légal des comptes consolidés du Groupe pour l'exercice clos le 31 décembre 2019, établis conformément aux normes internationales d'information financière (IFRS) telles qu'adoptées par l'Union Européenne et aux dispositions légales et réglementaires applicables en Belgique. Ces comptes consolidés comprennent le bilan consolidé au 31 décembre 2019, ainsi que l'état consolidé du résultat global et autres éléments du résultat global, l'état consolidé de passage des capitaux propres et un tableau consolidé des flux de trésorerie de l'exercice clos à cette date, ainsi que des annexes contenant un résumé des principales méthodes comptables et d'autres informations explicatives. Le total du bilan consolidé s'élève à 32.880.579 (000) EUR et l'état consolidé du résultat global et autres éléments du résultat global se solde par un bénéfice de l'exercice de 42.052 (000) EUR et par un bénéfice global de la période de 101.750 (000) EUR.

À notre avis, ces comptes consolidés donnent une image fidèle du patrimoine et de la situation financière du Groupe au 31 décembre 2019, ainsi que de ses résultats consolidés et de ses flux de trésorerie consolidés pour l'exercice clos à cette date, conformément aux normes internationales d'information financière (IFRS) telles qu'adoptées par l'Union Européenne et aux dispositions légales et réglementaires applicables en Belgique.

Fondement de l'opinion sans réserve

Nous avons effectué notre audit selon les Normes internationales d'audit (ISA) telles qu'applicables en Belgique. Par ailleurs, nous avons appliqué les normes internationales d'audit approuvées par l'IAASB applicables à la présente clôture et non encore approuvées au niveau national. Les responsabilités qui nous incombent en vertu de ces normes sont plus amplement décrites dans la section « Responsabilités du commissaire relatives à l'audit des comptes consolidés » du présent rapport. Nous nous sommes conformés à toutes les exigences déontologiques qui s'appliquent à l'audit des comptes consolidés en Belgique, en ce compris celles concernant l'indépendance.

Nous avons obtenu de l'organe d'administration et de la direction, les explications et informations requises pour notre audit.

Nous estimons que les éléments probants que nous avons recueillis sont suffisants et appropriés pour fonder notre opinion.

Observation – Evènements postérieurs à la clôture – Crise sanitaire relative au COVID-19

Nous attirons l'attention sur l'annexe n°30 des comptes consolidés dans laquelle les effets de la crise COVID-19 sur les opérations et la situation financière du Groupe sont décrits.

Cette observation ne modifie pas notre opinion.

Points clés de l'audit

Les points clés de l'audit sont les points qui, selon notre jugement professionnel, ont été les plus importants lors de l'audit des comptes consolidés de la période en cours. Ces points ont été traités dans le contexte de notre audit des comptes consolidés pris dans leur ensemble et lors de la formation de notre opinion sur ceux-ci. Nous n'exprimons pas une opinion distincte sur ces points.

Systèmes informatiques et contrôles automatisés à l'égard de l'information financière

Description

Nous avons identifié les systèmes informatiques et les contrôles automatisés à l'égard de l'information financière comme point clé de l'audit du Groupe car les processus de production de l'information comptable et financière dépendent fondamentalement des systèmes informatiques et des contrôles liés à ceux-ci pour traiter des volumes significatifs de transactions. Les processus comptables automatisés et l'environnement de contrôle des systèmes informatiques, qui comprennent la gouvernance informatique ainsi que les contrôles généraux sur ces systèmes tels que les contrôles relatifs aux développements et changements, aux accès aux programmes et aux données, et aux opérations informatiques, doivent être conçus et opérer de façon effective afin d'assurer la fiabilité de l'information financière. Les calculs et autres contrôles automatisés des applications (y compris les contrôles d'accès logique) ainsi que les interfaces entre les systèmes informatiques sont particulièrement importants.

Nos procédures d'audit

Assistés de nos spécialistes informatiques, nous avons effectué les procédures suivantes:

- Evaluation du cadre de gouvernance du Groupe en matière de gestion des systèmes informatiques.
- Evaluation de la conception et de l'efficacité opérationnelle des contrôles généraux sur les systèmes informatiques tels que les contrôles relatifs aux développements et changements, aux accès aux programmes et aux données, et aux opérations informatiques.
- Evaluation de la conception et de l'efficacité opérationnelle des contrôles automatisés des processus clés ayant un impact sur l'information financière produite par le Groupe, en prenant en considération les contrôles compensatoires qui ne sont pas impactés par des contrôles généraux et les procédures substantives additionnelles considérées comme nécessaires.
- Evaluation de l'intégrité des données transmises au travers des différents systèmes informatiques vers les systèmes concourant à la production de l'information financière.

Actifs détenus par le dépositaire

Nous référons à l'annexe n°26.2 « Hors bilan » des comptes consolidés, à laquelle est mentionné le montant d'actifs détenus par le dépositaire.

Description

Nous avons identifié que les actifs détenus par le dépositaire était un point clé de l'audit pour le Groupe parce qu'en raison de ses opérations (principalement l'administration d'actifs), l'information sur les actifs détenus par le dépositaire est considérée comme importante. C'est également un indicateur clé qui donne une indication sur la taille des activités du Groupe. De plus, en raison du régime belge applicable à la protection des actifs des clients ('Client Asset Protection' ou 'CAP') (cf. circulaire PPB-2007-7-CPB émise par le régulateur le 10 avril 2007), l'accent est mis sur le respect des exigences imposées par les parties prenantes du Groupe, y compris l'exhaustivité et l'exactitude des montants rapportés sous les actifs détenus par le dépositaire.

Nos procédures d'audit

Assistés de nos spécialistes en réglementation bancaire et en informatique, nous avons effectué les procédures suivantes:

- Nous avons évalué la mise en place et testé l'efficacité opérationnelle des contrôles manuels et automatisés relatifs au processus de rapportage des actifs détenus par le dépositaire, en ce compris les contrôles devant assurer la qualité des données sources, l'exhaustivité des actifs détenus par le dépositaire ainsi que leur évaluation.
- Nous avons sélectionné un échantillon de contrats et avons corroboré les conclusions de la direction à propos du respect des exigences liées à la protection des actifs détenus par le dépositaire et au rapportage.

- Nous avons sélectionné un échantillon de contrats et avons testé la répartition des actifs détenus par le dépositaire entre les différents entités juridiques du groupe The Bank of New York Mellon Corp. en comparant les données du système opérationnel avec les confirmations reçues des entités en question.
- Nous avons évalué le processus de réconciliation entre les actifs détenus par le dépositaire extraits des systèmes opérationnels du Groupe et les actifs détenus par le dépositaire tels que repris dans l'annexe n°26.2 "Hors bilan" des comptes consolidés.

Provision pour plaintes et litiges

Nous référons aux annexes n°20 « Provisions » et n°26.1 « Actions en justice » des comptes consolidés.

Description

Au 31 décembre 2019, le bilan consolidé du Groupe inclut une provision pour plaintes et litiges s'élevant à 165.701 (000) EUR.

Par la nature de ses activités, le Groupe est impliqué dans un nombre limité de plaintes et litiges juridiques. Une issue défavorable de ces plaintes et litiges pourrait par contre avoir un impact potentiellement significatif sur la situation financière du Groupe.

Il existe inévitablement une incertitude inhérente à chaque procédure juridique. De plus, certains litiges pourraient s'avérer être complexes tant par la nature des sujets abordés que par la spécificité de leurs aspects juridiques. La direction de la Société reconnaît une provision pour plaintes et litiges sur la base de la prévision de la probabilité que le règlement de chaque procédure juridique entraîne une sortie de ressources pouvant être déterminée de manière fiable. L'évaluation de l'issue d'une plainte ou d'un litige, ainsi que de la quantification du risque, comprennent inévitablement un niveau important de jugement.

Nos procédures d'audit

Assistés de nos spécialistes en droit et en fiscalité, nous avons effectué les procédures suivantes:

- Nous avons évalué la procédure mise en place par la direction pour prévoir l'issue des plaintes et des litiges, ainsi que le caractère approprié de l'évaluation.
- Nous avons évalué la capacité historique de la direction de déterminer avec précision la probabilité d'un règlement des plaintes et litiges et avons évalué le caractère raisonnable de la prévision actuelle.
- Nous avons analysé l'évaluation des plaintes et litiges par la direction en la corroborant à de la correspondance considérée comme pertinente ainsi qu'au registre des plaintes.
- Nous avons consulté le dernier rapport émis par le conseiller juridique interne de la Société, y compris l'analyse de la motivation des conclusions formulées.

- Nous avons consulté et analysé la correspondance avec les avocats externes en réponse à nos demandes de confirmation du statut des procédures juridiques en cours et avons évalué l'impact de cette évidence sur le caractère approprié des provisions.
- Nous avons évalué l'information présentée aux annexes n°20 « Provisions » et n°26.1 « Actions en justice » des comptes consolidés.

Responsabilités de l'organe d'administration relatives à l'établissement des comptes consolidés

L'organe d'administration est responsable de l'établissement des comptes consolidés donnant une image fidèle conformément aux normes internationales d'information financière (IFRS) telles qu'adoptées par l'Union Européenne et aux dispositions légales et réglementaires applicables en Belgique, ainsi que du contrôle interne qu'il estime nécessaire à l'établissement de comptes consolidés ne comportant pas d'anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs.

Lors de l'établissement des comptes consolidés, il incombe à l'organe d'administration d'évaluer la capacité du Groupe à poursuivre son exploitation, de fournir, le cas échéant, des informations relatives à la continuité d'exploitation et d'appliquer le principe comptable de continuité d'exploitation, sauf si l'organe d'administration a l'intention de mettre le Groupe en liquidation ou de cesser ses activités ou s'il ne peut envisager une autre solution alternative réaliste.

Responsabilités du commissaire relatives à l'audit des comptes consolidés

Nos objectifs sont d'obtenir l'assurance raisonnable que les comptes consolidés pris dans leur ensemble ne comportent pas d'anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs, et d'émettre un rapport du commissaire contenant notre opinion. L'assurance raisonnable correspond à un niveau élevé d'assurance, qui ne garantit toutefois pas qu'un audit réalisé conformément aux normes ISA permettra de toujours détecter toute anomalie significative existante. Les anomalies peuvent provenir de fraudes ou résulter d'erreurs et sont considérées comme significatives lorsque l'on peut raisonnablement s'attendre à ce qu'elles puissent, prises individuellement ou en cumulé, influencer les décisions économiques que les utilisateurs des comptes consolidés prennent en se fondant sur ceux-ci.

Lors de l'exécution de notre contrôle, nous respectons le cadre légal, réglementaire et normatif qui s'applique à l'audit des comptes consolidés en Belgique. L'étendue du contrôle légal des comptes consolidés ne comprend pas d'assurance quant à la viabilité future du Groupe ni quant à l'efficacité ou l'efficacités avec laquelle l'organe d'administration a mené ou mènera les affaires du Groupe.

Dans le cadre d'un audit réalisé conformément aux normes ISA et tout au long de celui-ci, nous exerçons notre jugement professionnel et faisons preuve d'esprit critique. En outre:

- nous identifions et évaluons les risques que les comptes consolidés comportent des anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs, définissons et mettons en œuvre des procédures d'audit en réponse à ces risques, et recueillons des éléments probants suffisants et appropriés pour fonder notre opinion. Le risque de non-détection d'une anomalie significative provenant d'une fraude est plus élevé que celui d'une anomalie significative résultant d'une erreur, car la fraude peut impliquer la collusion, la falsification, les omissions volontaires, les fausses déclarations ou le contournement du contrôle interne;
- nous prenons connaissance du contrôle interne pertinent pour l'audit afin de définir des procédures d'audit appropriées en la circonstance, mais non dans le but d'exprimer une opinion sur l'efficacité du contrôle interne du Groupe;
- nous apprécions le caractère approprié des méthodes comptables retenues et le caractère raisonnable des estimations comptables faites par l'organe d'administration, de même que des informations les concernant fournies par ce dernier;
- nous concluons quant au caractère approprié de l'application par l'organe d'administration du principe comptable de continuité d'exploitation et, selon les éléments probants recueillis, quant à l'existence ou non d'une incertitude significative liée à des événements ou situations susceptibles de jeter un doute important sur la capacité du Groupe à poursuivre son exploitation. Si nous concluons à l'existence d'une incertitude significative, nous sommes tenus d'attirer l'attention des lecteurs de notre rapport du commissaire sur les informations fournies dans les comptes consolidés au sujet de cette incertitude ou, si ces informations ne sont pas adéquates, d'exprimer une opinion modifiée. Nos conclusions s'appuient sur les éléments probants recueillis jusqu'à la date de notre rapport du commissaire. Cependant, des situations ou événements futurs pourraient conduire le Groupe à cesser son exploitation;
- nous apprécions la présentation d'ensemble, la structure et le contenu des comptes consolidés et évaluons si les comptes consolidés reflètent les opérations et événements sous-jacents d'une manière telle qu'ils en donnent une image fidèle;
- nous recueillons des éléments probants suffisants et appropriés concernant les informations financières des entités ou activités du Groupe pour exprimer une opinion sur les comptes consolidés. Nous sommes responsables de la direction, de la supervision et de la réalisation de l'audit au niveau du Groupe. Nous assumons l'entière responsabilité de l'opinion d'audit.

Nous communiquons au comité d'audit notamment l'étendue des travaux d'audit et le calendrier de réalisation prévus, ainsi que les constatations importantes relevées lors de notre audit, y compris toute faiblesse significative dans le contrôle interne.

Nous fournissons également au comité d'audit une déclaration précisant que nous nous sommes conformés aux règles déontologiques pertinentes concernant l'indépendance, et leur communiquons, le cas échéant, toutes les relations et les autres facteurs qui peuvent raisonnablement être considérés comme susceptibles d'avoir une incidence sur notre indépendance ainsi que les éventuelles mesures de sauvegarde y relatives.

Parmi les points communiqués au comité d'audit, nous déterminons les points qui ont été les plus importants lors de l'audit des comptes consolidés de la période en cours, qui sont de ce fait les points clés de l'audit. Nous décrivons ces points dans notre rapport du commissaire, sauf si la loi ou la réglementation en interdit la publication.

Autres obligations légales et réglementaires

Responsabilités de l'organe d'administration

L'organe d'administration est responsable de la préparation et du contenu du rapport de gestion sur les comptes consolidés, et des autres informations contenues dans le rapport annuel.

Responsabilités du commissaire

Dans le cadre de notre mandat et conformément à la norme belge complémentaire aux normes internationales d'audit (ISA) applicables en Belgique, notre responsabilité est de vérifier, dans leurs aspects significatifs, le rapport de gestion sur les comptes consolidés, et les autres informations contenues dans le rapport annuel, ainsi que de faire rapport sur ces éléments.

Aspects relatifs au rapport de gestion sur les comptes consolidés et aux autres informations contenues dans le rapport annuel

A l'issue des vérifications spécifiques sur le rapport de gestion sur les comptes consolidés, nous sommes d'avis que celui-ci concorde avec les comptes consolidés pour le même exercice et a été établi conformément à l'article 3:32 du Code des sociétés et des associations.

Dans le cadre de notre audit des comptes consolidés, nous devons également apprécier, en particulier sur la base de notre connaissance acquise lors de l'audit, si le rapport de gestion sur les comptes consolidés et les autres informations contenues dans le rapport annuel, à savoir:

— Chiffres clés et lettre du CEO

comportent une anomalie significative, à savoir une information incorrectement formulée ou autrement trompeuse. Sur la base de ces travaux, nous n'avons pas d'anomalie significative à vous communiquer.

Mentions relatives à l'indépendance

— Notre cabinet de révision et notre réseau n'ont pas effectué de missions incompatibles avec le contrôle légal des comptes consolidés et notre cabinet de révision est resté indépendant vis-à-vis du Groupe au cours de notre mandat.



- Les honoraires relatifs aux missions complémentaires compatibles avec le contrôle légal visées à l'article 3:65 du Code des sociétés et des associations ont correctement été valorisés et ventilés dans les annexes des comptes consolidés.

Autres mentions

- Nous faisons référence au rapport de gestion sur les comptes consolidés qui énonce le point de vue de l'organe d'administration selon lequel le Groupe est exempté de l'obligation de préparer et de publier l'information non-financière tel que requise par l'article 3:32, §2 du Code des sociétés et des associations étant donné que la Société est une filiale du groupe The Bank of New York Mellon Corp, qui prépare un rapport annuel consolidé qui inclut l'information non-financière. L'organe d'administration indique néanmoins que le contenu du rapport annuel consolidé n'inclut pas toutes les informations requises par l'article 3:32, §2 du Code des sociétés et des associations.
- Le présent rapport est conforme au contenu de notre rapport complémentaire destiné au comité d'audit visé à l'article 11 du règlement (UE) n° 537/2014.

Zaventem, le 26 mai 2020

KPMG Réviseurs d'Entreprises
Commissaire
représentée par

Kenneth Vermeire
Réviseur d'Entreprises

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December

| | | 2019 | 2018 |
|---|-------|-----------------|------------------|
| | Notes | In € '000 | In € '000 |
| Interest income | 2 | 344,619 | 313,270 |
| Interest expense | 2 | 234,519 | 208,003 |
| Net interest income | | 110,100 | 105,268 |
| Fee and commission income | 3 | 715,481 | 757,495 |
| Fee and commission expense | 3 | 287,575 | 339,457 |
| Net fee and commission income | | 427,907 | 418,038 |
| Gains /(losses) on non-qualifying economic hedges | 4 | 41,538 | 36,797 |
| Gains /(losses) on derecognition of assets other than held of sale, net | 5 | (9) | 25,046 |
| Other operating income | 5 | 5,897 | 727 |
| Total operating income | | 585,432 | 585,876 |
| Personnel expenses | 6 | 159,464 | 156,140 |
| Depreciation of Property and Equipment | 16 | 12,391 | 2,574 |
| Amortization/impairment of Intangible assets (other than goodwill) | 17 | 2,589 | 11,582 |
| Goodwill impairment | 17 | — | 395,919 |
| Impairment of financial assets not measured at fair value through profit and loss | | (665) | (585) |
| Provisions | 20 | 147,952 | 16,841 |
| Other operating expenses | 7 | 154,345 | 151,787 |
| Total operating expenses | | 476,076 | 734,259 |
| Profit/Loss before tax from continuing operations⁴ | | 109,355 | (148,383) |
| Tax expense (income) related to profit or (loss) from continuing operations | 8 | 67,304 | 48,091 |
| NET PROFIT (LOSS) FOR THE YEAR⁵ | | 42,052 | (196,474) |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss | | | |
| Remeasurement gains /(losses) on defined benefit plans | 22.2 | (18,643) | (626) |
| Related tax | 8.2 | 3,328 | (35) |
| | | (15,315) | (661) |
| Items that are or may be reclassified subsequently to profit or loss | | | |
| Movement in fair value reserve | | | |
| Net change in fair value | | 106,367 | (48,173) |
| Net amount transferred to profit and loss | | (2,915) | 2,745 |
| Related tax | 8.2 | (28,439) | 8,432 |
| | | 75,013 | (36,997) |
| Other comprehensive income for the year, net of tax | | 101,750 | (234,132) |
| Total comprehensive income (loss) for the year, net of tax | | 101,750 | (234,132) |

⁴ BNY Mellon SA/NV has no discontinued operations; accordingly, no profit or loss allocated to discontinued operations has been presented on the face of the consolidated statement of profit and loss and other comprehensive income.

⁵ All net profit/loss is attributable to the equity holders of the parent. The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 31 December | |
|---|-------|-------------------|-------------------|
| | | 2019 | 2018 |
| | | In € '000 | In € '000 |
| ASSETS | | | |
| Cash and cash balances with central banks | 10 | 10,754,991 | 6,238,261 |
| Derivative financial instruments | 14 | 158,006 | 295,091 |
| Loans and advances to customers | 11 | 8,834,550 | 6,535,177 |
| Investment securities | 12 | 12,696,318 | 12,517,744 |
| Current tax assets | 8 | 25,516 | 45,431 |
| Other assets | 15 | 325,943 | 244,831 |
| Property and equipment ⁶ | 16 | 49,020 | 7,228 |
| Deferred tax assets | 8 | 3,944 | 7,789 |
| Goodwill and other intangible assets | 17 | 32,291 | 9,291 |
| TOTAL ASSETS | | 32,880,579 | 25,900,845 |
| LIABILITIES | | | |
| Derivative financial instruments | 14 | 162,565 | 304,085 |
| Deposits from central banks | 18 | 545,410 | 585,458 |
| Deposits from financial institutions | 18 | 27,998,641 | 21,307,964 |
| Deposits from non-financial institutions | 18 | 44,252 | 45,931 |
| Other financial liabilities | 18 | 39,985 | — |
| Subordinated liabilities ⁷ | 18 | 358,124 | 358,755 |
| Current tax liabilities | 8 | 38,367 | 25,545 |
| Other liabilities | 19 | 370,649 | 283,902 |
| Provisions | 20 | 167,308 | 15,140 |
| Deferred tax liabilities | 8 | 16,316 | 1,585 |
| TOTAL LIABILITIES | | 29,741,618 | 22,928,364 |
| EQUITY | | | |
| Issued capital | 23 | 1,754,386 | 1,723,486 |
| Share premium | 23 | 33,333 | 33,333 |
| Retained earnings | | 1,269,453 | 1,196,043 |
| Other reserves | | 81,789 | 19,619 |
| TOTAL EQUITY | | 3,138,961 | 2,972,480 |

⁶ Following the adoption of IFRS 16, BNYM SA/NV presents right-of-use assets within "property and equipment" category. The prior year comparatives were not restated for this financial caption.

⁷ Other financial liabilities include lease liabilities following the adoption of IFRS 16.

All equity is attributable to the equity holders of the parent

The accompanying notes are an integral part of these consolidated financial statements

TOTAL LIABILITIES AND EQUITY

| | |
|-------------------|-------------------|
| <u>32,880,579</u> | <u>25,900,845</u> |
|-------------------|-------------------|

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of BNY Mellon SA/NV | | | | |
|---|---|----------------------|--------------------------|-----------------------|---------------------|
| | Issued capital | Share premium | Retained earnings | Other reserves | Total equity |
| | In '000 € | In '000 € | In '000 € | In '000 € | In '000 € |
| As at January 1, 2018 | 1,723,485 | 33,333 | 1,394,124 | 55,679 | 3,206,621 |
| Adjustment on initial application of IFRS 9, net of tax | — | — | (1,608) | — | (1,608) |
| Restated balance at 1 January 2018 | 1,723,485 | 33,333 | 1,392,516 | 55,679 | 3,205,013 |
| Total comprehensive income | | | | | |
| Profit/loss for the year | — | — | (196,474) | — | (196,474) |
| Other comprehensive income, net of tax | | | | | |
| Remeasurement gains/(losses) on defined benefit plans | — | — | — | (626) | (626) |
| <i>Fair value reserve</i> | | | | | |
| Net change in fair value | — | — | — | (48,173) | (48,173) |
| Net amount transferred to profit and loss | — | — | — | 2,745 | 2,745 |
| Tax on other comprehensive income | — | — | — | 8,396 | 8,396 |
| Total other comprehensive income | — | — | — | (37,658) | (37,658) |
| Total comprehensive income | — | — | (196,474) | (37,658) | (234,132) |
| Share-based payments (Note 25) | — | — | — | 1,599 | 1,599 |
| Transactions with owners | — | — | — | 1,599 | 1,599 |
| At 31 December 2018 | 1,723,485 | 33,333 | 1,196,042 | 19,620 | 2,972,480 |
| Total comprehensive income | | | | | |
| Profit/loss for the year | — | — | 42,052 | — | 42,052 |
| Other comprehensive income, net of tax | | | | | |
| Remeasurement gains/(losses) on defined benefit plans | — | — | — | (18,643) | (18,643) |
| <i>Fair value reserve (FVOCI debt instruments)</i> | | | | | |
| Net change in fair value | — | — | — | 106,367 | 106,367 |
| Net amount transferred to profit and loss | — | — | — | (2,915) | (2,915) |
| Tax on other comprehensive income | — | — | — | (25,111) | (25,111) |
| Total other comprehensive income | — | — | — | 59,698 | 59,698 |
| Total comprehensive income | — | — | 42,052 | 59,698 | 101,750 |
| Share-based payments (Note 25) | — | — | — | 2,476 | 2,476 |
| Transactions with owners⁸ | 30,900 | — | 31,359 | 2,476 | 64,735 |
| At 31 December 2019 | 1,754,385 | 33,333 | 1,269,453 | 81,789 | 3,138,960 |

The accompanying notes are an integral part of these consolidated financial statements.

⁸ Transactions with owners in 2019 include the additional capital from the common control transaction whereby BNY Mellon Trust Company Ireland Limited (TCIL) merged into The Bank of New York Mellon SA/NV in December 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | 2019 In € '000 | 2018 In € '000 |
|--|---------|-------------------|--------------------|
| OPERATING ACTIVITIES | | | |
| Net Profit (Loss) for the year | | 42,052 | (196,474) |
| <u>Adjustments for:</u> | | 253,820 | 284,838 |
| Net interest income | 2 | (110,100) | (105,268) |
| Current and deferred tax expenses | 8 | 67,304 | 48,091 |
| Depreciation and amortization | 16, 17 | 14,980 | 7,025 |
| Goodwill impairment | 16, 17 | — | 395,919 |
| Intangibles impairment | 16, 17 | — | 7,131 |
| Provisions | 20 | 147,952 | 16,841 |
| Issued capital and TCIL merger | 23 | 62,259 | — |
| Gains from derecognition of assets other than held for sale | | — | (25,046) |
| Other ⁹ | | 71,424 | (59,856) |
| <u>Changes in:</u> | | | |
| Monetary reserves | 10 | 48,281 | (76,854) |
| Loans and advances | 11 | 2,299,372 | (2,802,849) |
| Investment securities | 12 | 268,872 | 191,592 |
| Derivative financial assets | 14 | (137,085) | 188,868 |
| Other assets | 15 | 81,112 | (303,828) |
| Advances from central banks | 18 | (40,048) | (274,610) |
| Deposits from credit institutions | 18 | 6,690,046 | (10,424,416) |
| Deposits (other than credit institutions) | 18 | (1,678) | 35,853 |
| Derivatives financial liabilities | 14 | (141,520) | 178,149 |
| Other financial liabilities | 18,26.4 | 51,385 | — |
| Other liabilities | 19 | 86,748 | (44,269) |
| Interest received | 2 | 344,619 | 313,270 |
| Interest paid | 2 | (234,519) | (208,003) |
| Income taxes refunded (paid) | | (58,999) | (71,584) |
| Net cash used in operating activities | | 4,431,353 | (7,604,176) |
| INVESTING ACTIVITIES | | | |
| Purchase of tangible assets | 16 | (15,639) | (3,683) |
| Disposal of tangible assets | 16 | (573) | — |
| Purchase of intangible assets | 17 | (25,589) | (540) |
| Proceeds from sales of debt securities | | 6,442,365 | 5,413,298 |
| Purchase of debt securities | | (6,352,067) | (3,311,855) |
| Proceeds from derecognition of assets other than held for sale | | — | 36,391 |
| Net cash used in investing activities | | 48,497 | 2,133,611 |

⁹ Other mainly includes non-cash transactions

FINANCING ACTIVITIES

| | | | |
|---|-----------|-------------------|--------------------|
| Payments of lease liabilities ¹⁰ | 26.4 | (11,400) | — |
| Net cash used in financing activities | | (11,400) | — |
| Net increase/decrease in cash and cash equivalents | | 4,468,450 | (5,470,564) |
| Cash and cash equivalents at beginning of the period | | 5,986,561 | 11,457,125 |
| Effect of exchange rate fluctuations on cash and cash equivalents¹¹ | | — | — |
| Cash and cash equivalents at the end of the period | 10 | 10,455,009 | 5,986,561 |
| Components of cash and cash equivalents: | | | |
| Cash and cash balances with central banks ¹² | | 10,455,009 | 5,986,561 |

The accompanying notes are an integral part of these consolidated financial statements.

¹⁰ BNY Mellon SA/NV has classified cash payments for the principal portion of lease payments as financing activities and cash payments for interest portion as operating activities consistent with the presentation of other interest payments.

¹¹ Cash and Cash balances with central banks are mainly invested in Euro.

¹² Cash and cash balances with central banks does not contain monetary reserves amount as compared to Note 10.

SIGNIFICANT ACCOUNTING POLICIES

1. Significant Accounting Policies

1.1. Basis of Accounting

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that have been measured at fair value. The consolidated financial statements are presented in Euro (€) and all values are rounded to the nearest € thousand, except where otherwise indicated.

The consolidated financial statements of The Bank of New York Mellon SA/NV, its branches and subsidiaries (hereinafter “BNY Mellon SA/NV”) have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS). This is the first set of annual financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in note 1.4.

The consolidated financial statements provide comparative information in respect of the previous period. BNY Mellon SA/NV presents its consolidated statement of financial position broadly in order of liquidity.

1.2. Basis of Consolidation

The consolidated financial statements comprise the financial statements of BNY Mellon SA/NV and its subsidiaries as at and for the year ended 31 December 2019. The individual financial statements of BNY Mellon SA/NV’s subsidiaries are prepared for the same reporting year as BNY Mellon SA/NV. The accounting policies of subsidiaries are consistent with those of the parent.

Subsidiaries are consolidated from the date on which control is transferred to BNY Mellon SA/NV until the date BNY Mellon SA/NV ceases to control the subsidiary. Control is achieved when BNY Mellon SA/NV is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, BNY Mellon SA/NV controls an investee if, and only if, BNY Mellon SA/NV has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The existence and the effect of potential voting rights that are currently exercisable or convertible are considered when assessing the control of BNY Mellon SA/NV over another entity. BNY Mellon SA/NV re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The results of subsidiaries acquired or disposed of during a financial year are included in the consolidated statement of profit and loss and other comprehensive income from the date of acquisition or up to the date of disposal. All intra-group balances and transactions between BNY Mellon SA/NV’s entities and gains and losses there from are eliminated in full on consolidation. No non-controlling interests are presented in the consolidated financial statements since BNY Mellon SA/NV owns 100% of each its subsidiaries’ issued share capital.

1.3. Use of Judgments and Estimates

In the process of applying BNY Mellon SA/NV's accounting policies, management has made judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Estimates and assumptions

The key areas in which changes to management's assumptions concerning future economic and market conditions, and other key sources of estimation uncertainty at the reporting date, have a significant risk of affecting the carrying amounts of assets and liabilities within the next financial year, are described below. BNY Mellon SA/NV bases its assumptions and estimates on conditions existing and information available when the consolidated financial statements are prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of BNY Mellon SA/NV. Such changes are reflected in the assumptions when they occur.

Going concern

BNY Mellon SA/NV's business activities, together with the factors likely to affect its future development, performance and position are set out in the Board of Directors' report, including the impact of the ongoing COVID-19 pandemic. In addition, the explanatory notes, which includes BNY Mellon SA/NV's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit and liquidity risk, are an integral part of the consolidated financial statements.

BNY Mellon SA/NV's management performs an annual going concern review that considers, under a stress test scenario, BNY Mellon SA/NV's ability to meet its financial obligations as they fall due, for a period of at least twelve months after the date that the consolidated financial statements are approved by the Board of Directors.

Based on the above assessment of BNY Mellon SA/NV's financial position, liquidity and capital, the management has concluded that BNY Mellon SA/NV has adequate resources to continue in operational existence for the foreseeable future defined as a period of at least twelve months after the date that the annual accounts are approved. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon BNY Mellon SA/NV's ability to continue as a going concern. Accordingly, the consolidated financial statements are prepared using the going concern basis of accounting.

Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to one cash-generating unit (CGU), which is BNY Mellon SA/NV as a whole. This decision is based on the commercial, operational and financial interconnectedness within BNY Mellon SA/NV Asset Servicing business that clearly demonstrate that cash flows generated out of BNY Mellon SA/NV entities and businesses are inter-dependent. There is a mutual interdependency for access to global markets, service delivery and operations by use of shared services, IT platforms and infrastructure as well as BNY Mellon SA/NV dependency towards the BNY Mellon Group for the customer sourcing and relationship management that are carried out on a global basis. Furthermore, strategic management decisions are taken by the Board of BNY Mellon SA/NV at the consolidated level before being implemented in the various entities.

The recoverable amount for BNY Mellon SA/NV used in the goodwill impairment exercise has been calculated based on the higher of the fair value less cost to sell or value in use. BNY Mellon SA/NV identified value in use as being the recoverable amount of a CGU, which is determined by discounting the future cash flows expected to be generated by the business. The calculation of the value in use is based on certain key assumptions. In the framework of the impairment testing, these key assumptions have been stressed as part of a sensitivity analysis to determine the impact on goodwill valuation. The effect of such stress testing has been determined to be insignificant, resulting in no change to the carrying amount. The key assumptions are disclosed in detail in the explanatory note 17.

Retirement benefit plan

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using an actuarial valuation. The actuarial calculation involves making assumptions about factors, including the discount rate, future salary increases, inflation and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. See explanatory note 22 for discussion of assumptions used.

IFRS 9 Financial instruments

Classification of financial assets, including the assessment of business model and the contractual terms of financial assets are elaborated in note 1.6.3. Determining inputs into the ECL measurement model, including incorporation of forward looking information is included in note 28.

1.4. Changes in Accounting Policies

The following new and amended IFRS and IFRIC interpretations were considered by BNY Mellon SA/NV, these being endorsed by European Union and effective for annual periods beginning on or after 1 January 2019.

IFRS 16 Leases

Effective January 1, 2019, BNY Mellon SA/NV adopted IFRS 16, which replaces existing standards for leases, including IAS 17 *Leases*.

The primary objective of this standard is to increase transparency and comparability by recognizing lease assets and liabilities on the balance sheet and expand related disclosures. The standard requires a “right-of-use” asset and a payment obligation liability on the balance sheet for most leases and subleases.

BNY Mellon SA/NV adopted this using the modified retrospective method, on a prospective basis with prior periods not restated. BNY Mellon SA/NV elected to utilize the basket of practical expedients available at implementation and hence did not reassess: i) whether expired or existing contracts contain leases under the new definition of a lease, ii) the lease classification for expired or existing leases and iii) whether previously capitalized initial direct costs would still qualify for capitalization. BNY Mellon SA/NV recognized right-of-use assets and lease liabilities on the balance sheet, both based on the present value of the expected remaining lease payments. When measuring lease liabilities, BNYM SA/NV discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 0.8%.

| | January 1, 2019 In € '000 |
|---|---------------------------------|
| Operating lease commitments | 56,072 |
| Price indexation and other costs (not in scope of IFRS 16) | (4,896) |
| Discounted using the incremental borrowing rate at 1 January 2019 | 47,497 |
| Lease liabilities recognized at 1 January 2019 | <u>47,497</u> |

Please refer to section 1.6.10 and 26.4 for more details.

Other

The following amended standards are not applicable or had limited or no impact on BNY Mellon SA/NV consolidated financial statements:

- *IFRIC 23 Uncertainty over income tax treatments*
- *Amendments to IFRS 9 Financial Instruments: Prepayment features with negative compensation*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle - various standards*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*

1.5. Forthcoming Changes in IFRS

BNY Mellon SA/NV will apply the new or revised IFRS standards and related annual improvements detailed below as from their effective date following the endorsement process by the European Commission.

Other Standards

The following amended standards are not applicable or are not expected to have a significant impact on BNY Mellon SA/NV consolidated financial statements:

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Amendments to IFRS 3 Business Combinations*
- *IFRS 17 Insurance Contracts*
- *Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform*
- *Amendments to IAS 1 and IAS 8: Definition of Material*

1.6. Summary of Accounting Policies and Disclosures

1.6.1. Foreign Currency Translation

The consolidated financial statements are presented in Euro (€). Items included in the financial statements of each of BNY Mellon SA/NV's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"), which is Euro for all BNY Mellon SA/NV's entities, except for BNYM Mellon SA/NV Dublin branch. As from 2019, following an internal assessment performed, USD was determined to be the functional currency of this branch.

1.6.1.1. Translations of transactions and balances

Foreign currency transactions are converted into the functional currency using the spot rate of the exchange rate prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, as well as the gains and losses from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in “Other operating income/expenses” in the consolidated statement of profit and loss and other comprehensive income.

BNY Mellon SA/NV has no non-monetary items that are measured at historical cost in a currency other than Euro.

1.6.2. Recognition of Revenue and Expense

Income and expense are not offset in the consolidated statement of profit and loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of BNY Mellon SA/NV. The following specific recognition criteria must also be met before revenue is recognized.

1.6.2.1. Net Income Interest

The interest income and expense is recognized using the effective interest rate (EIR) method for all financial instruments measured at amortized cost and interest bearing financial assets classified as FVOCI debt instruments. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Since 2014, interest rates on deposits at certain central banks, including European Central Bank, and certain government issued debt securities, have been negative. BNY Mellon SA/NV has recognized the negative interest on financial assets as interest expense and reported it as part of “Interest expense” line in the consolidated statement of profit and loss and other comprehensive income. Conversely, negative interest charged to clients on financial liabilities has been recognized and reported as “Interest Income”.

Once the value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

BNY Mellon SA/NV’s loans to, and deposits from, banks and customers primarily relate to BNY Mellon SA/NV’s clients’ cash accounts operated in connection with their securities settlement activity, with balances generally changing on a daily basis. Time deposits and the re-deposits of surplus funds rarely have maturities of more than three months and, accordingly, the EIR method generally is not used for such transactions.

Interest income and expense on derivative instruments are recorded in profit and loss on an accrual basis.

1.6.2.2. Fees and Commission Income

Contract revenue (i.e. scope of IFRS 15 standard) is reported in the fee and commission line. BNY Mellon SA/NV earns fee and commission income mainly from the provision of: i) Asset

Servicing products such as Global Custody, Depository Bank Services or Fund Accounting services, ii) Issuer servicing products such as Depository Receipts and Corporate Trust, and iii) Markets, of which mainly Foreign exchange commission fees. Revenue is based on terms specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Revenue is recognized when, or as, a performance obligation is satisfied by transferring control of a good or service to a customer.

A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring BNY Mellon SA/NV's progress in satisfying the performance obligation in a manner that reflects the transfer of goods and services to the customer. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time the customer obtains control of the promised good or service.

The amount of revenue recognized reflects the consideration the BNY Mellon SA/NV expects to be entitled to in exchange for the promised goods and services. Taxes assessed by a governmental authority that are both imposed on, and concurrent with, a specific revenue producing transaction, are collected from a customer and are excluded from revenue.

Nature of services and revenue recognition

Investment Services fees (i.e. Asset Servicing, Issuer Services) are based primarily on the market value of assets under custody ("AUC"); client accounts, balances and the volume of transactions; securities lending volume and spreads; and fees for other services. Certain fees based on the market value of assets are calculated in arrears on a monthly or quarterly basis.

Substantially all services within the Investment Services business are provided over time, except as defined below. Revenue for these services is recognized using the time elapsed method, equal to the expected invoice amount, which typically represents the value provided to the customer for our performance completed to date.

Trade execution fees (i.e Foreign Exchange commissions) are delivered at a point-in-time, based on customer actions. Revenue for trade execution is recognized on trade date, which is consistent with the time that the service was provided. Customers are generally billed for services on a monthly or quarterly basis.

1.6.2.3. Dividend Income

Dividend income is recognized when BNY Mellon SA/NV's right to receive payment is established.

1.6.2.4. Gains and Losses on Non Qualifying Economic Hedges

All gains and losses from changes in fair value of derivative financial assets and liabilities that act as economic hedges but that do not qualify for hedge accounting treatment are recognized in this caption.

1.6.3. Financial Instruments – Initial Recognition and Subsequent Measurement

All financial assets and liabilities initially are recognized on the trade date, i.e., the date that BNY Mellon SA/NV becomes a party to the contractual provisions of the instrument, and are measured initially at their fair value plus, for items not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The classification of financial instruments at initial

recognition depends on management's intent for which the financial instruments were acquired and the characteristics of the instruments, as explained below.

1.6.3.1. Non-derivative financial assets - Classification

Non-derivative financial instruments comprise investments in debt instruments, trade and other debtors, cash and cash equivalents, loans and borrowings and trade and other creditors. On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

Financial assets are measured at amortised cost if they meet both of the following conditions and are not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets are measured at FVOCI only if they meet both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are SPPI on the principal amount outstanding.

All other financial assets are classified at FVTPL. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application depending on the facts and circumstances at that date.

1.6.3.1.1 Business model assessment

Certain financial statement captions, such as deposits with central banks and financial institutions, are always held for collection of contractual cash flows as by the nature of the asset it cannot be sold. For other financial assets, BNY Mellon SA/NV makes an assessment of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. Information that is considered includes:

- the stated policies and objectives for the portfolio;
- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated;
- the risks that affect the performance of the business model; and
- the frequency and volume of historical and expected sales.

BNY Mellon SA/NV generally does not hold non-derivative financial assets for trading.

1.6.3.1.2 Assessment of whether cash flows are solely payments of principal and interest

'Principal' for these purposes is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that would change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

1.6.3.1.3. *Reclassification of Financial Assets*

BNY Mellon SA/NV does not reclassify financial assets subsequent to their initial recognition, except in the period after BNY Mellon SA/NV changes its business model for managing financial assets. In 2019 BNY Mellon SA/NV has not recorded any reclassifications of financial assets.

1.6.3.2. *Derivative Financial Instruments Held for Trading*

BNY Mellon SA/NV uses derivatives such as currency swaps as well as forward and spot FX contracts. Derivatives are recognized in the statement of the financial position at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized in the "Gains and losses on non-qualifying economic hedges" in the statement of profit and loss and other comprehensive income.

BNY Mellon SA/NV engages in currency swaps with its clients, and on behalf of its clients in the context of their operational activities. These derivatives are backed-to-back with the London Branch of BNY Mellon Group to neutralize currency risk for BNY Mellon SA/NV. BNY Mellon SA/NV does not hold derivatives embedded in other financial instruments.

1.6.4. **Derecognition of Financial Assets and Financial Liabilities**

1.6.4.1. *Financial Assets*

BNY Mellon SA/NV derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- The rights to receive cash flows from the asset have expired; or
- BNY Mellon SA/NV has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement where either
 - BNY Mellon SA/NV has transferred substantially all the risks and rewards of the asset, or
 - BNY Mellon SA/NV has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

BNY Mellon SA/NV has derecognized financial assets in 2019 and 2018.

1.6.4.2. *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or canceled, or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

1.6.5. Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated statement of financial position as BNY Mellon SA/NV retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'Deposits', reflecting the transaction's economic substance as a loan to BNY Mellon SA/NV. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the consolidated statement of financial position. The consideration paid, including accrued interest, is recognized in the consolidated statement of financial position, within 'Loans and advances to customers', reflecting the transaction's economic substance as a loan by BNY Mellon SA/NV. The difference between the purchase and resale prices is recognized in "Net interest income" and is accrued over the life of the agreement using the EIR.

1.6.6. Financial guarantees received

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

As from 2016 BNY Mellon SA/NV, as a holder, has entered into a number of financial guarantee agreements, such as letters of credit received from group entity or third party, to cover its large exposures for prudential reporting purposes. These guarantees are recorded in the off balance sheet and recorded at their notional amount. Please see note 26.3 for further details.

1.6.7. Determination of Fair Value

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. A three-level hierarchy for fair value measurements is utilized based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Fair value focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The fair value for financial instruments traded in active markets at the consolidated statement of financial position date is based on their quoted market price, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

BNY Mellon SA/NV has only level 1 and level 2 financial instruments. As such BNY Mellon SA/NV does not use any internal valuation models with unobservable data for the determination of the fair value.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in the explanatory notes.

1.6.8. Impairment of Financial Assets

Under IFRS 9, BNY Mellon SA/NV generally recognises loss allowances at an amount equal to 12-month ECL (the portion of ECL that results from default events that are possible within 12 months after the reporting date) unless there has been significant increase in credit risk since origination of the instrument, in which case ECLs are recognised on a lifetime loss basis. The assessment of whether there has been a significant increase in credit risk is a critical judgment and is further discussed below. The recognition of a 12-month or lifetime ECL is based upon a three Stage criteria that is required to be updated at each reporting date:

- Stage 1 applies to all exposures from initial recognition as long as there is no significant deterioration in credit quality; interest revenue is calculated on the gross carrying amount of the asset.
- Stage 2 applies when a significant increase in credit risk has occurred since initial recognition; interest revenue is based upon the gross carrying amount of the asset.
- Stage 3 applies when an asset becomes credit-impaired (can be defined as defaulted); interest revenue is based upon the net carrying amount (net of loss allowance).

1.6.8.1 Measurement of ECL

BNY Mellon measures the ECLs based on the risk of default over one of two different time horizons, depending on whether the credit risk of the borrower has increased significantly since the exposure was first recognized or, for loan commitments, the date in which BNY Mellon unconditionally committed to extend credit. The loss allowance for those exposures that have not increased significantly in credit risk ('stage 1' exposures) is based on lifetime expected credit losses from default events occurring within the next 12 months (12 months ECL). The allowance for those exposures that have suffered a significant increase in credit risk and exposures that are defaulted ('stage 2' and 'stage 3' exposures respectively) is based on based on lifetime expected credit losses from default events occurring over the remaining contractual life (Lifetime ECL).

For financial assets that are credit-impaired at the reporting date – the difference between the gross carrying amount and the present value of estimated future cash flows is reported. For financial guarantee contracts, the expected payments to reimburse the holder less any amounts that the group expects to recover is calculated.

BNY Mellon SA/NV maintains an allowance for doubtful accounts for the estimated non-collection of accounts receivable. Uncollectability is presumed 180 days after invoice issue date unless there are known customer - specific reasons for the delay in settlement. Given BNY Mellon SA/NV's very low ECL rate overall, the effect of ECL on trade receivables is insignificant. Accordingly, no ECL is calculated centrally for such exposures.

Further details on inputs to ECL model are elaborated in Note 28.

1.6.9. Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

1.6.10 Leasing

BNY Mellon SA/NV determines if an arrangement is a lease at inception. Right-of-use (“ROU”) assets represent BNY Mellon SA/NV's right to use an underlying asset for the lease term and lease liabilities represent BNY Mellon SA/NV's obligation to make lease payments. The ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. For all leases, BNY Mellon SA/NV uses a rate that represents a collateralized incremental borrowing rate based on similar terms and information available at commencement date of the lease in determining the present value of lease payments. In addition to the lease payments, the determination of an ROU asset may also include certain adjustments related to lease incentives and initial direct costs incurred. Options to extend or terminate a lease are included in the determination of the ROU asset and lease liability only when it is reasonably certain that BNY Mellon SA/NV will exercise that option.

Under IFRS, all leases are classified as financing leases. Lease expense for finance leases is recognized using the effective interest method. ROU assets are reviewed for impairment when events or circumstances indicate that the carrying amount may not be recoverable. If deemed impaired, the ROU asset is written down and the remaining balance is subsequently amortized on a straight-line basis. The ROU asset is presented in the "property and equipment" line and the lease liability is presented as "Other financial liabilities" in the statement of the financial position.

For all leases, BNY Mellon SA/NV has elected to account for the contractual lease and non-lease components as a single lease component and include in the calculation of the lease liability. The non-lease variable components, such as maintenance expense and other variable costs including non-index or rate escalations, have been excluded from the calculation.

Additionally, for certain equipment leases, BNY Mellon SA/NV applies a portfolio approach to account for the operating lease ROU assets and liabilities.

BNY Mellon SA/NV does not engage in subleasing activities.

1.6.11. Cash and Cash Equivalents

Cash and cash equivalents as referred to in the consolidated statement of financial position include notes and coins on hand, balances held with central banks and loans and advances with credit institutions and customers, on demand or with an original maturity of three months or less, which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

1.6.12. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to the residual value over the estimated useful life as follows:

| | | |
|---|---|---|
| Leasehold improvements | - | Over the lesser of the estimated useful life of the asset and the remaining term of the lease |
| Motor vehicles | - | 4 years |
| Computer equipment | - | 4 years |
| Furniture, fixtures and other equipment | - | 4 to 10 years |

The estimated useful life of property and equipment is reviewed and, in case of revision, depreciation is adjusted prospectively. Property and equipment is derecognized on disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' or 'Other operating expense' in the consolidated statement of profit and loss and other comprehensive income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. There are no restrictions on title, and none of the property or equipment is pledged.

1.6.13. Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting, except for common control transactions (see below). This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring costs) of the acquired business, generally at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the consolidated statement of profit and loss and other comprehensive income in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized, but is reviewed for impairment at least once a year or if events or changes in circumstances indicate that the carrying value may be impaired.

An impairment loss is recognized if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses relating to goodwill are not reversed in future periods.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statement of profit and loss and other comprehensive income.

Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination (and where that control is not transitory) are referred to as common control transactions. The accounting policy for the acquiring entity would be to account for the transaction at book value in its consolidated financial statements. The book value of the acquired entity is the book value as reflected in the stand-alone statutory financial statements of the acquired entity, after alignment to the IFRS accounting policies adopted by BNY Mellon SA/NV. The difference between the cost of the acquisition and the acquirer's proportionate share of the net asset value acquired in common control transactions, will be allocated to retained earnings within equity.

The consolidated income statement includes the results of each of the combining entities or businesses as of the date the common control transaction has taken place.

1.6.14. Intangible Assets other than Goodwill

BNY Mellon SA/NV's intangible assets other than goodwill include the value of computer software and client contracts. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to BNY Mellon SA/NV.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their estimated useful life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization of intangible assets is included as a separate expense line 'Amortization of intangible assets (other than goodwill)' in the statement of profit and loss and other comprehensive income.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

| | | |
|-----------------------------------|---|----------------|
| Computer software | - | 3 to 5 years |
| Client contracts (customer lists) | - | 10 to 25 years |

BNY Mellon SA/NV has no intangible assets other than goodwill with an indefinite useful life.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit and loss and other comprehensive income when the asset is derecognized.

1.6.15. Impairment of Non-Financial Assets

BNY Mellon SA/NV assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, BNY Mellon SA/NV estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash-generating units (CGUs) or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level at which the goodwill is monitored for internal management purposes. As

explained in the chapter 1.3 above, BNY Mellon SA/NV has determined that the CGU is to be defined as BNY Mellon SA/NV itself.

BNY Mellon SA/NV identified value in use as being the recoverable amount of a cash-generating unit (CGU) in 2019. In assessing value in use of a CGU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For previously-impaired assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, BNY Mellon SA/NV estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit and loss and other comprehensive income in the period in which it arises.

1.6.16. Pension Benefits

1.6.16.1. Defined Benefit Plan

BNY Mellon SA/NV operated four defined benefit plans during the year. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service and salary. A valuation by a qualified independent actuary is carried out every year for each of the plans.

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the Projected Unit Credit Method. The discount rates used in the actuarial valuations are based on rates of high quality (generally those rated "AA" and above) corporate bonds issued in the same country as the obligation, that have maturity dates approximating the terms of BNY Mellon SA/NV's obligations.

Remeasurements, comprising of actuarial gains and losses, experience gains and (losses) on obligations and return on plan assets excluding interest income, are recognized immediately in other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

BNY Mellon SA/NV determines the net interest for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit obligation (asset).

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of any net asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. An economic benefit

is available to BNY Mellon SA/NV if it is realizable during the life of the plan or on settlement of the plan liabilities.

1.6.16.2. Defined Contribution Plan

BNY Mellon SA/NV also operates four defined contribution plans. The contributions payable to those plans are recognized as an expense under 'Personnel expenses' when they fall due. Unpaid contributions are recorded as a liability.

1.6.17. Provisions

Provisions are recognized when BNY Mellon SA/NV has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of profit and loss and other comprehensive income net of any reimbursement.

Restructuring provisions

Restructuring provisions are recognized only when BNY Mellon SA/NV has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, an estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

1.6.18. Share-Based Payments

Employees (including senior executives) of BNY Mellon SA/NV receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). Equity instruments granted are shares and options over shares of The Bank of New York Mellon Corporation, thus forming part of group share based payment arrangements.

BNY Mellon SA/NV uses a lattice-based binomial method to calculate the fair value of options on the date of the grant. Stock units are valued based on the quoted price of the relevant stock at grant date.

The cost of equity-settled transactions is recognized, together with a corresponding credit to in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and BNY Mellon SA/NV's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period is recognized in 'Personnel expenses' and represents the movement in cumulative expense recognized as at the beginning and end of that period.

When the terms of an equity-settled award are modified, the minimum expense recognized in 'Personnel expenses' is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. The entity shall recognize the incremental fair value granted if the modification increases the

fair value of the instruments granted, or the fair value of additional equity instruments granted, if the modification increases the number of equity instruments.

When an equity-settled award is forfeited, any expense is reversed for the portion of the award that has not yet vested. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the forfeited award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

All other long term and post-employment benefits are recognized under the “personnel expenses” caption.

1.6.19. Taxes

1.6.19.1. Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where legal entities of BNY Mellon SA/NV operate.

1.6.19.2. Deferred Tax

Deferred tax is recognized on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Current tax and deferred tax relating to items recognized outside profit or loss are similarly recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1.6.19.3. Sales Tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or expensed, as applicable
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

1.6.20. Dividends on Ordinary Shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by BNY Mellon SA/NV's shareholders. Dividends for the year that are approved after the reporting date are disclosed as a subsequent event.

1.6.21. Equity Reserves

The reserves recorded in equity of BNY Mellon SA/NV include:

- Retained earnings comprising the accumulated profit and loss and
- 'Other' reserve which comprises: (i) the impact of the share based payment, (ii) changes in fair value of FVOCI debt instruments and (iii) net gain (loss) on actuarial gains or losses from the defined benefit pension plans, including tax effects thereon.

1.6.22. Segment Reporting

Segment disclosures are required for entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market. This is not the case for BNY Mellon SA/NV. As a result, BNY Mellon SA/NV does not report an operating segment reporting by business nor by geographic market.

1.6.23. Assets Under Custody

Assets Under Custody are reported in accordance with Belgian Customer Asset Protection rules (Circulaire PPB-2007-7). The amount of AUC is determined based on the allocation of each security in custody to the contracting entity / sub-custodian, whereas in the past a proxy was determined based on specific criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Net Interest Income

| Interest income | 2019 | 2018 |
|--|----------------|----------------|
| | in € '000 | in € '000 |
| Investment securities | 133,814 | 135,113 |
| Loans and advances to customers | 132,546 | 112,599 |
| Interest income on liabilities | 78,259 | 65,559 |
| Total | 344,619 | 313,270 |
| Interest expense | | |
| Deposits from credit institutions | 62,324 | 58,262 |
| Deposits from other financial institutions | 84,135 | 74,006 |
| Deposits from non-financial institutions | 217 | 127 |
| Subordinated loans | 30,117 | 30,117 |
| Interest expense on assets | 57,433 | 45,491 |
| Interest expense on leases (note 26.4) | 293 | — |
| Total | 234,519 | 208,003 |
| Net interest income | 110,100 | 105,268 |

The net interest income was stable and has presented a slight increase of €5 Mio compared to last year. The increase in interest income from loans and advances to customers by €19.9 Mio results mainly from the inter-company income increase by €70.3 Mio and third party overdrafts by €1.8 Mio, offset by decrease in third party deposits nostro and placements by €53.5 Mio. The increase in inter-company income is mainly due to increase in volume.

The increase in the interest expense results mainly from the third party deposits expense by €44.4 Mio compensated by a decrease in the inter-company expense by €30.6 Mio. The increase on client deposits expense is mainly due to BNY Mellon Luxembourg transfer and as well as the impact of the continued increase in USD interest rate in the course of the year. The decrease in inter-company interest expense (having an overall positive impact on net interest income) is mainly due to Brussels Branch client transfers to the parent company in the US; hence 1) having less costs on exotic currencies and 2) due to decrease in volume of transactions.

In 2019 BNY Mellon SA/NV continued charging negative interest rate to clients, hence better reflecting the cost of maintaining Euro deposits. Interest income on liabilities line shows the negative interest charged to the clients, where appropriately, by BNYM Mellon SA/NV and the interest expense on assets line presents negative interest charged by central bank.

3. Net Fee and Commission Income

| | 2019 | 2018 |
|---|----------------|----------------|
| | In € '000 | In € '000 |
| Fee and commission income- contract revenue | | |
| INVESTMENT SERVICES | 685,181 | 710,778 |
| Asset Servicing | 546,764 | 584,879 |
| Clearance and Global Collateral Services | 52,931 | 30,518 |
| Issuer Services | 85,473 | 95,377 |
| <i>of which ADR</i> | 39,169 | 41,349 |
| <i>of which Corporate Trust</i> | 46,304 | 54,028 |
| Other | 13 | 4 |
| OTHER CONTRACT REVENUE | 30,300 | 46,716 |
| Markets | 30,300 | 46,716 |
| <i>of which Foreign exchange commissions</i> | 30,300 | 46,716 |
| Total fee and commission income - contract revenue | 715,481 | 757,495 |
| Fee and commission expenses | | |
| Custody | 114,789 | 152,828 |
| Clearing and settlement | 719 | 791 |
| Servicing, processing and support fees re-charged | 170,011 | 183,103 |
| Other | 2,056 | 2,735 |
| Total fee and commission expense | 287,575 | 339,457 |
| Net fee and commission income | 427,907 | 418,038 |

The overall net increase of €10 Mio in fee and commission income is positively driven by the offering of new products, such as securities lending and global collateral management, following the exist of the UK from the European Union (Brexit).

Assets servicing is positively impacted by TCIL merger, resulting in additional €6 Mio into BNY Mellon SA/NV Dublin branch.

In Issuer services, the American Depository Receipts (ADR) results were slightly down in 2019 which is explained by lower shared revenues allocated by the US Head-Office as result a decline of DR revenues globally. Additionally the decrease in Corporate Trust revenues is mainly attributed to the full year negative impact of the transfer of Corporate Trust customers into the UK branch of the institutional bank beginning in the third quarter of 2018.

Custody and foreign exchange commissions revenues and expenses decreased due to the continuing impact from the close of BNYM Brussels Branch, dual network initiative, the transfer of client contracts of London Branch to the Institutional Bank and certain client terminations in German entities.

Servicing (e.g. transactional, safekeeping), processing and support fees are fees re-charged by group companies. On the revenue side, these fees are mainly part of asset servicing (i.e. global custody) and collateral management operations cost recharged by BNY Mellon SA/NV to group entities. On the expense side this is mainly on Asset Servicing related operations and overhead charges that would be mainly resulting from other group entities charging BNY Mellon

SA/NV for servicing. These captions are mainly impacted by close of BNYM Brussels Branch and dual network initiative.

4. Gains (Losses) on Non Qualifying Economic Hedges and Other Derivatives

| | 2019 | 2018 |
|------------------------------------|---------------|---------------|
| | In € '000 | In € '000 |
| Forward foreign exchange contracts | 41,538 | 36,798 |
| | 41,538 | 36,798 |

Realized and unrealized result of currency swaps that act as economic hedges are recorded in this caption totaling €41.5 Mio, net of any FX revaluation on the underlying treasury placements. The result in this caption has increased due to the increase in FX swaps volume processed in first part of 2019. This is following increase of incoming USD from clients in Luxembourg transferred in the context of Brexit.

5. Other Operating Income

| | 2019 | 2018 |
|--|--------------|---------------|
| | In € '000 | In € '000 |
| Gains from sales of FVOCI debt instruments | 2,915 | — |
| Gains on de-recognition of non-financial assets, net | — | 25,046 |
| Miscellaneous income | 2,981 | 727 |
| | 5,897 | 25,773 |

The decrease in this caption is due to the gains from de-recognition of non-financial assets related to the sale of client contracts of London Branch of BNY Mellon SA/NV to other entities of BNY Mellon that occurred in July of the previous year. Miscellaneous income includes a €0.9 Mio reversal of a recorded potential claim from a client in Luxembourg that was not required.

6. Personnel Expenses

| | 2019 | 2018 |
|---|----------------|----------------|
| | In € '000 | In € '000 |
| Wages and salaries | 116,732 | 111,879 |
| Social security contributions | 21,241 | 19,040 |
| Pension costs – Defined benefit plan (Note 22.2) | 4,303 | 4,000 |
| Pension costs – Defined contribution plan (Note 22.1) | 5,378 | 4,832 |
| Share-based payments (Note 25) | 2,482 | 1,602 |
| Other | 9,031 | 14,788 |
| | 159,166 | 156,140 |

The Personnel expenses increased compared with prior year by €3 Mio mainly due to increase in headcount transferred from BNYMIL Luxembourg Branch (related to Brexit) and new headcount in Dublin Branch. Other expenses consist principally of medical insurance costs of €3 Mio (2018: €2.9 Mio), head office shared service staff expenses of €1 Mio (2018: €4.4 Mio), commuting programs for employees of €2 Mio (2018: €3.3 Mio).

7. Other Operating Expenses

| | 2019 | 2018 |
|--|------------------|------------------|
| | In € '000 | In € '000 |
| Losses on sales of FVOCI bonds | — | 2,745 |
| Professional fees | 24,545 | 24,956 |
| IT expenses | 5,306 | 24,952 |
| Bank levies | 18,613 | 17,949 |
| Operational lease expenses (note 26.4) | 3,149 | 11,773 |
| Shared services support (overhead) | 72,617 | 38,850 |
| Temporary clerical assistance | 5,049 | 5,609 |
| Non recoverable VAT | 9,889 | 7,602 |
| Repair and maintenance | 3,043 | 3,079 |
| Miscellaneous, including marketing | 12,134 | 14,273 |
| | 154,345 | 151,787 |

Other operating expenses increased compared to prior year by €3 Mio mainly due to share of service support increasing by €34 Mio, mainly related to technology recharges from US, offset by the decrease of IT expenses provided by third parties (€20 Mio). The service support increase is mainly driven by new and repriced allocations coming from the parent company on IT support.

Increase in bank levies (+€1Mio) is mainly due to SRF contribution increase for the year (based on increase of target amount to collect from the sector).

Operational lease expenses decrease €8.62 Mio as a result of the implementation of the new standard IFRS 16.

The major components of other miscellaneous expenses are: foreign business tax of €1.0Mio (2018: €0.7 Mio), deposit insurance of €1.8Mio (2018: €1.8M Mio) and transportation costs of €1.9Mio (2018: €1.9 Mio).

The fees incurred towards the statutory auditor including related entities are: audit fees of €1.4 Mio (2018:€1.3 Mio), audit related fees of 0.7 Mio (2018: €0.8 Mio) and non-audit fees of 0.4 Mio (2018: € 0.3 Mio).

8. Income Tax

The components of income tax expense for the years ended 31 December 2018 and 2019 are:

| | 2019 | 2018 |
|---|------------------|------------------|
| | In € '000 | In € '000 |
| Current tax | | |
| Current income tax | 73,849 | 59,772 |
| Adjustment in respect of current income tax of prior years | — | — |
| Deferred tax | | |
| Relating to origination and reversal of temporary differences | (6,546) | (11,680) |
| | 67,304 | 48,091 |

8.1. Reconciliation of the Total Tax Charge

Reconciliation between the tax expense and the accounting profit multiplied by Belgium's domestic tax rate for the years ended 31st of December 2018 and 2019 is as follows:

| | 2019 | 2018 |
|---|------------------|------------------|
| | In € '000 | In € '000 |
| Accounting profit before taxes | 109,355 | (148,383) |
| 1. Tax expense using Belgian statutory rate of 29.58% (2018:29.58%) | 32,347 | (43,891) |
| 2. Effect of different tax rates in other jurisdictions | (13,857) | 1,260 |
| 3. Income not subject to tax | 47,208 | 17,295 |
| 4. Non tax deductible expenses | 3,773 | 90,221 |
| 5. Effect of utilization of previously unrecognized tax losses | — | (497) |
| 6. Adjustment in respect of current income tax of prior year | 5,525 | (1,012) |
| 7. Other increase (decrease) in statutory tax charge | (7,692) | 15,284 |
| Income tax expense reported in the consolidated of comprehensive statement | 67,304 | 48,091 |

The effective income tax rate of 2019 is 61.55% (2018: -32.41%). The increase in the effective income tax rate in 2019 compared to 2018 is the goodwill impairment expense that reduced the tax rate in 2018 with no recurring impact to the tax rate in 2019.

8.2. Income Tax Effects relating to Comprehensive Income

| | 2019 | | | 2018 | | |
|---|--------------------------|------------------------------|--------------------------|--------------------------|------------------------------|--------------------------|
| | Before tax amount | Tax (expense) benefit | Net of tax amount | Before tax amount | Tax (expense) benefit | Net of tax amount |
| | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 |
| Net gain/(loss) on actuarial gains and losses | (18,643) | 3,328 | (15,315) | (626) | (35) | (661) |
| Financial instruments at FVTOCI | 103,452 | (28,439) | 75,013 | (45,429) | 8,432 | (36,997) |
| Total | 84,809 | (25,111) | 59,698 | (46,054) | 8,396 | (37,658) |

8.3. Current and Deferred Tax

The following table shows current tax assets and liabilities recorded on the consolidated statement of financial position:

| | 2019 | 2018 |
|--------------------------------|---------------|---------------|
| | In € '000 | In € '000 |
| Current tax assets | | |
| Pending tax refunds | 15,601 | 14,190 |
| VAT tax receivables | 4,361 | 4,076 |
| Other | 5,554 | 27,166 |
| Total | 25,516 | 45,431 |
| Current tax liabilities | | |
| Reserve for taxes | 30,920 | 19,756 |
| VAT tax payables | 7,447 | 5,789 |
| Other | — | — |
| Total | 38,367 | 25,545 |

The following table shows deferred tax recorded on the consolidated statement of financial position and changes recorded in the income tax expense:

| | Deferred tax assets 31 December 2019 | Deferred tax liabilities 31 December 2019 | Statement of Profit and Loss 2019 | Other Comprehensiv e Income 2019 | Deferred tax assets Dec 2018 | Deferred tax liabilities Dec 2018 |
|---|--|--|---|--|---------------------------------------|---|
| | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 |
| Pensions | 6,640 | (541) | (265) | 3,858 | 3,046 | — |
| Temporary difference on goodwill deductible | — | — | — | — | — | — |
| Temporary difference on intangibles assets deductible | 7,021 | (1,451) | 7,841 | — | — | (2,271) |
| Other liabilities not recognized for tax purposes | 49 | — | 18 | — | 31 | — |
| Revaluation of financial instruments | — | (24,118) | (439) | (28,439) | 4,760 | 0 |
| Other temporary differences | 2,497 | (2,468) | (610) | — | 639 | 0 |
| | 16,206 | (28,578) | 6,545 | (24,581) | 8,476 | (2,271) |
| Amounts offset | 12,262 | 12,262 | | | 686 | 686 |
| Total | 3,944 | (16,316) | | | 7,790 | (1,585) |

The law of 25 December 2017 introduced a reduction of the Belgian Corporate tax rate in two steps. In the first step, as from 01 January 2018, the Belgian corporate tax rate reduced from 33.99% to 29.58%. In a second step, as from 01 January 2020, the corporate tax rate will further decrease from 29.58% to 25%.

9. Financial Assets and Financial Liabilities

9.1 Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

| December 31, 2019 In € '000 | Mandatorily at FVTPL | FVOCI - debt instruments | Amortised cost | Total carrying value |
|--|-------------------------|-----------------------------|-------------------|-------------------------|
| Cash and cash balances with central banks | — | — | 10,754,991 | 10,754,991 |
| Financial assets held for trading | 158,006 | — | — | 158,006 |
| Loans and advances to customers | — | — | 8,834,550 | 8,834,549 |
| Investment securities | — | 12,098,541 | 597,777 | 12,696,318 |
| Total financial assets | 158,006 | 12,098,541 | 20,187,317 | 32,443,864 |
| Financial liabilities held for trading | 162,565 | — | — | 162,565 |
| Deposits by central banks | — | — | 545,410 | 545,410 |
| Deposits by credit and other financial institutions | — | — | 27,998,641 | 27,998,641 |
| Due to non-financial customers | — | — | 44,252 | 44,252 |
| Subordinated liabilities | — | — | 358,124 | 358,124 |
| Total financial liabilities | 162,565 | — | 28,946,428 | 29,108,993 |
| December 31, 2018 In € '000 | | | | |
| Cash and cash balances with central banks | — | — | 6,238,261 | 6,238,261 |
| Financial assets held for trading | 295,091 | — | — | 295,091 |
| Loans and advances to customers | — | — | 6,535,177 | 6,535,177 |
| Investment securities | — | 11,927,449 | 590,295 | 12,517,744 |
| Total financial assets | 295,091 | 11,927,449 | 13,363,734 | 25,586,274 |
| Financial liabilities held for trading | 304,085 | — | — | 304,085 |
| Deposits by central banks | — | — | 585,458 | 585,458 |
| Deposits by credit and other financial institutions | — | — | 21,307,964 | 21,307,964 |
| Due to non-financial customers | — | — | 45,931 | 45,931 |
| Subordinated liabilities | — | — | 358,755 | 358,755 |
| Total financial liabilities | 304,085 | — | 22,298,108 | 22,602,193 |

There were no financial assets or financial liabilities designated as at FVTPL at 31 December 2019 and 2018.

10. Cash and Cash Balances with Central Banks

| | 2019 | 2018 |
|---|--------------------------|-------------------------|
| | In € '000 | In € '000 |
| Cash balances with the National Bank of Belgium | 5,246,694 | 2,145,303 |
| Placements with other central banks | 5,508,297 | 4,092,958 |
| of which monetary reserves | 299,981 | 251,700 |
| | <u>10,754,991</u> | <u>6,238,261</u> |

Deposits with the National Bank of Belgium and with some other central banks mainly represent placements and are available for use in the day-to-day operations of BNY Mellon SA/NV and part of BNY Mellon SA/NV liquid assets buffer. The increase of €4.5B is mainly due to increase in the placement with National Bank of Belgium by €3.1B and with Deutsche Bundesbank by €0.6B.

11. Loans and Advances to Customers

| | 2019 | 2018 |
|--|------------------|------------------|
| | In € '000 | In € '000 |
| Loans and advances to | | |
| Central Governments | 18,165 | 78 |
| Credit institutions | 8,558,577 | 6,215,612 |
| Other financial institutions | 258,138 | 320,333 |
| Less: Allowance for impairment losses | (331) | (847) |
| | 8,834,549 | 6,535,177 |

BNY Mellon SA/NV balance sheet is liquidity driven. Deposits are mainly invested in bonds' portfolio and placements with the central banks. The increase of loans to credit institutions is principally due to increase in affiliates term deposits by €1.6B and interest bearing deposits and nostro balances with third party counterparties by €0.9B as of 31 December 2019. This increase was slightly compensated by a decrease in affiliates interest bearing overdrafts by €0.2B. As of 31 December 2019, the balance with credit institutions included a reverse repurchase agreement transaction of €20Mio fully collateralized.

A loss allowance arising from ECL of €0.33Mio is reported for loans and advances with customers at 31 December 2019 (2018: €0.85 Mio). The minimal allowance reflects the limited credit risk associated with these assets. BNY Mellon SA/NV deals with high quality rated counterparts and on a very short term basis (as described in more detail in note 28). As a result, there is limited risk that a loan or advance will become non-performing and result in impairment. No non-performing loans and advances exist as of 31 December 2019 and 2018 respectively.

On 25 February 2016, BNY Mellon SA/NV signed a collateral agreement with Deutsche Bank AG to cover exposures incurred by BNY Mellon SA/NV's cash deposits to Deutsche Bank AG and its branches in its capacity of sub-custodian. The carrying amount of the securities given as collateral by Deutsche Bank AG at 31 December 2019 was €183 Mio (2018: €173 Mio).

12. Investment Securities

| | 2019 | 2018 |
|--|-------------------|-------------------|
| | In € '000 | In € '000 |
| FVOCI investment securities issued by | 12,098,541 | 11,927,449 |
| Central governments | 5,403,464 | 6,969,922 |
| Credit institutions | 5,963,287 | 4,155,057 |
| Non credit institutions | 731,790 | 802,470 |
| Investment securities at amortized cost issued by | 597,777 | 590,295 |
| Central governments | 231,265 | 410,039 |
| Credit institutions | 366,511 | 180,256 |
| | 12,696,318 | 12,517,744 |

BNY Mellon SA/NV invests in highly liquid debt securities to improve the interest margin and to have an adequate liquid asset buffer. Overall there is a decrease in sovereign debt by €2.4B which is partially replaced by a portfolio of bonds from public sector entities, regional governments and local authorities by €2.2B and covered bonds of €0.5B. The investment portfolio stayed stable in terms of size at 31 December 2019 and 2018. The shift between central governments and credit institutions in the investment securities at amortised cost is due to increase in short term certificates of deposits, compensated by decrease in US treasury bonds and notes. Please refer to note 28.3 for discussion on BNY Mellon SA/NV's approach to managing liquidity.

13. Asset Encumbrance

BNY Mellon SA/NV has signed a collateral agreement with Euroclear to cover an intraday credit line for \$2.1B. BNY Mellon SA/NV invests in various bonds (please see note 12); these have been further pledged as collateral to Euroclear during 2018 and 2019.

To mitigate credit risk in foreign exchange business, BNY Mellon SA/NV increased the volume of collateralized netting agreements since 2017. Hence BNY Mellon SA/NV has foreign exchange cash collateral presented in encumbered other assets in 2018 and 2019.

As of 31 December 2019 the carrying and fair value of encumbered assets by type of assets were as follows:

| | 2019 | | 2018 | | | |
|-----------------|--------------------------------------|---------------------------------|--|--------------------------------------|---------------------------------|--|
| | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets |
| Assets | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 |
| Debt securities | 2,609,477 | 2,609,808 | 10,086,841 | 2,742,135 | 2,742,775 | 9,775,609 |
| Other assets | 328,086 | — | 19,856,175 | 396,706 | 0 | 12,986,395 |
| | 2,937,563 | 2,609,808 | 29,943,016 | 3,138,841 | 2,742,775 | 22,762,004 |

At year ending 2019, the carrying amount of the debt securities refer to bonds pledged to Euroclear. Other assets encumbered refer to monetary reserves, mainly placed with National Bank of Belgium, treated as encumbered assets as these cannot be freely withdrawn by the bank. In 2019, other assets include foreign exchange cash collateral of €28 Mio (2018: €145 Mio).

The reportable encumbered collateral received, or available for encumbrance are presented below:

| Encumbered assets/collateral received and associated liabilities | 2019 | | 2018 | |
|--|---|--|---|--|
| | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued |
| | In € '000 | In € '000 | In € '000 | In € '000 |
| Carrying amount of financial liabilities | | | | |
| Derivatives | 44,853 | 28,105 | 272,762 | 145,005 |
| Repurchase agreements | 20,018 | 20,000 | — | — |
| Collateralized deposits | 37,119 | 37,119 | 17,326 | 17,326 |
| Other sources of encumbrance | — | 2,852,340 | — | 2,976,510 |
| Total sources of encumbrance | 101,989 | 2,937,563 | 290,088 | 3,138,841 |

BNY Mellon SA/NV has no own debt securities issued. Other sources of encumbrance refer to the monetary reserves at central banks, foreign exchange cash collateral and bonds pledged to Euroclear referred above.

14. Derivative Financial Instruments

The table below shows the fair values of derivative instruments, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts are indicative of neither the market risk nor the credit risk.

| Derivatives held for trading | Assets | Liabilities | Notional amount | Assets | Liabilities | Notional amount |
|------------------------------------|----------------|----------------|-------------------|----------------|----------------|-------------------|
| | 2019 | 2019 | 2019 | 2018 | 2018 | 2018 |
| In € '000 | | | | | | |
| Forward foreign exchange contracts | 158,006 | 162,565 | 25,510,761 | 295,091 | 304,085 | 41,879,653 |
| | 158,006 | 162,565 | 25,510,761 | 295,091 | 304,085 | 41,879,653 |

Derivatives often involve, at their inception, a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the value of the derivative.

Over-the-counter derivatives may expose BNY Mellon SA/NV to the risks associated with the absence of an exchange market on which to close out an open position.

BNY Mellon SA/NV's exposure under derivative contracts is closely monitored as part of the overall management of BNY Mellon SA/NV's market risk. Currently, concerning over-the-counter derivatives, BNY Mellon SA/NV has forward foreign exchange contracts related to: a) its treasury activity and b) customer transactions. The latter are currently mirrored on a back to back basis with BNY Mellon.

Disclosures concerning the fair value of derivatives are provided in Note 24.

15. Other Assets

| | 2019 | 2018 |
|---|------------------|------------------|
| | In € '000 | In € '000 |
| Prepaid charges | 1,487 | 2,403 |
| Accrued income (other than interest income from financial assets) | 114,818 | 55,327 |
| Accounts receivable, including: | 202,331 | 176,780 |
| <i>From affiliate companies</i> | 32,923 | 34,140 |
| Miscellaneous | 7,312 | 10,320 |
| | 325,948 | 244,831 |

The accounts receivable balance at year end is highly driven by day-to-day operations. BNY Mellon SA/NV's customers are billed based on fee schedules that are agreed upon in each customer contract. Accounts receivables included receivables from customers in a total amount of €104.55Mio at 31 December 2019 (2018: €65.95Mio). Next to this amount, accounts receivables include receivables from brokers in a total amount of €70Mio at 31 December 2019. An allowance is maintained for accounts receivable which is generally based on the number of days outstanding. Adjustments to the allowance are recorded in other operating expense in the Statement of profit and loss and other comprehensive income.

At 31 December 2019, the accrued income refers mainly to unbilled receivables, which amounted to €114.01Mio and considered due to the passage of time rather than due to contingent factors; hence there were no contract assets or associated impairment in 2019. At 31 December 2018 the unbilled receivables were €43.13Mio.

Miscellaneous assets include operating transactions that are in a suspense account until clarification that result from day-to-day operations of BNY Mellon SA/NV.

16. Property and Equipment

| 2019 | Buildings and Leasehold improvements | Computer equipment | Furniture, fixtures and other equipment | Total |
|---|--|-----------------------|--|---------------|
| | In € '000 | In € '000 | In € '000 | In € '000 |
| Net Book Value | | | | |
| At 1 January | 4,499 | 301 | 2,426 | 7,227 |
| Recognition of ROU assets (IFRS 16 - note 26.4) | 36,568 | 8 | 3,297 | 39,873 |
| Adjusted balance at 1 January | 41,067 | 309 | 5,724 | 47,099 |
| Additions | 8,441 | 952 | 4,260 | 13,652 |
| Business combinations | — | 182 | 1,805 | 1,987 |
| Disposals | (512) | — | (61) | (573) |
| Depreciation charge for the year | (8,324) | (501) | (3,978) | (12,803) |
| Other movements | (342) | 65 | (63) | (340) |
| At 31 December | 40,329 | 301 | 2,426 | 49,022 |
| Gross carrying amount | 64,012 | 4,959 | 18,936 | 87,907 |
| Accumulated depreciation and impairment | (23,682) | (3,952) | (11,249) | (38,884) |
| | | | | |
| 2018 | Leasehold improvements | Computer equipment | Furniture, fixtures and other equipment | Total |
| | In € '000 | In € '000 | In € '000 | In € '000 |
| Net Book Value | | | | |
| At 1 January | 3,789 | 250 | 1,784 | 5,823 |
| Additions | 2,165 | 221 | 1,298 | 3,683 |
| Business combinations | 0 | — | — | 0 |
| Disposals | (1) | — | — | 0 |
| Depreciation charge for the year | (1,745) | (170) | (656) | (2,571) |
| Other movements | 292 | — | — | 292 |
| At 31 December | 4,499 | 301 | 2,426 | 7,227 |
| Gross carrying amount | 20,693 | 3,907 | 10,076 | 34,676 |
| Accumulated depreciation and impairment | (16,192) | (3,595) | (7,660) | (27,448) |

¹³ As at 31 December 2019, property and equipment includes right-of-use assets of €38.9 Mio mainly related to leased branches and office premises (see note 26.4). The comparatives were not restated.

17. Goodwill and Other Intangible Assets

| 2019 | Goodwill | Computer software | Client Contracts | Total |
|---|------------------|--------------------------|-------------------------|------------------|
| Net Book Value | In € '000 | In € '000 | In € '000 | In € '000 |
| At 1 January | — | 572 | 8,716 | 9,288 |
| Acquisitions | — | 477 | 19,961 | 20,438 |
| Business combinations | 4,403 | — | 748 | 5,151 |
| Retirement & disposals | — | — | — | — |
| Amortization charge for the year | — | (507) | (2,081) | (2,589) |
| Goodwill and intangibles impairment | 0 | — | — | 0 |
| Foreign currency translation effects | — | — | — | — |
| Other movements | — | — | — | — |
| At 31 December | 4,403 | 542 | 27,343 | 32,288 |
| Gross carrying amount | 546,326 | 30,618 | 67,643 | 644,586 |
| Accumulated depreciation and impairment | (541,923) | (30,073) | (40,299) | (612,295) |
| 2018 | Goodwill | Computer software | Client Contracts | Total |
| Net Book Value | In € '000 | In € '000 | In € '000 | In € '000 |
| At 1 January | 400,923 | 1,091 | 25,559 | 427,573 |
| Acquisitions | — | 540 | — | 540 |
| Business combinations | — | — | — | — |
| Retirement & disposals | — | — | — | — |
| Amortization charge for the year | — | (1,059) | (3,277) | (4,336) |
| Goodwill impairment | (395,854) | — | (7,131) | (402,985) |
| Foreign currency translation effects | — | — | — | — |
| Other movements | (5,069) | — | (6,436) | (11,505) |
| At 31 December | — | 572 | 8,716 | 9,288 |
| Gross carrying amount | 541,923 | 30,136 | 39,601 | 602,430 |
| Accumulated depreciation and impairment | (541,923) | (29,561) | (30,885) | (593,139) |

17.1. Impairment Testing of Goodwill and other intangibles

Under IFRS, goodwill is annually tested for impairment at BNY Mellon SA/NV level, which was determined to be the cash generating unit. We refer to section 1 (Significant accounting policies) for the determination of the cash generating unit and the date (31 December) on which goodwill is tested for impairment.

Last year, €396 Mio of impairment losses on goodwill was recognized for the year ended 31 December 2018, writing down the carrying amount of goodwill to zero.

As at December 31, 2019, a goodwill balance with a net book value of €4.4Mio was acquired through TCIL merger completed in December 2019.

Hence, an impairment testing exercise was performed at year-end, using a 5-year financial plan. Overall analysis supports that no impairment write-off is required as the value in use exceeds the carrying value of goodwill of €4.4Mio.

The recoverable amount for BNY Mellon SA/NV was calculated based on the value in use. This value in use was determined by discounting the future cash flows expected to be generated from the cash generating unit's continuing use. Value in use in 2019 was determined in a similar manner as in prior years based on updated assumptions, summarized as follows:

- Cash flows were projected based on net earnings after taxes (corrected for "non-cash" gains/losses) as of 31 December 2019, an updated assessment of the cash flows for the 5-year business plan.
- Terminal cash flows were extrapolated using a constant growth rate of 1.27 percent (in line with 2018 exercise), which is based on the long-term growth assumption of the BNY Mellon SA/NV and set equal to the current long-term risk free rate.
- A discount rate of 9.77 percent (in line with 2018 exercise) was applied in determining the recoverable amounts for the cash generating unit. BNY Mellon SA/NV used a WACC based on European risk free rate and a Belgium premium, in line with previous iterations. Next to this, an alpha of 1.00% (in line with 2018 exercise) was included in the discount rate to reflect uncertainty.

For 2019, management has decided to use year-end actuals instead of mid-year reporting figures, also aligning it to the latest available forecasted figures.

For 2019 BNYM SA/NV did not identify any impairment triggers on other intangibles and as a result of it, no impairment test was considered necessary as of 31 December 2019.

18. Financial Liabilities Measured at Amortized Costs

| | 2019 | 2018 |
|---|-------------------|-------------------|
| | In € '000 | In € '000 |
| Deposits by central banks | 545,410 | 585,458 |
| Deposits from credit institutions | 7,654,625 | 5,395,671 |
| Current accounts / overnight deposits | 7,623,943 | 5,361,070 |
| Deposits with agreed maturity | 10,664 | 34,602 |
| Repurchase agreements | 20,018 | — |
| Deposits from other financial institutions | 20,344,016 | 15,912,293 |
| Current accounts / overnight deposits | 20,311,395 | 15,882,522 |
| Deposits with agreed maturity | 32,621 | 29,771 |
| Deposits from non-financial institutions | 44,252 | 45,931 |
| Current accounts / overnight deposits | 44,252 | 45,931 |
| Subordinated liabilities (Note 21) | 358,124 | 358,755 |
| Other financial liabilities (Note 26.4) | 39,985 | — |
| | 28,986,413 | 22,298,108 |

All the liabilities were issued by BNY Mellon SA/NV.

BNY Mellon SA/NV has not had any defaults of principal, interest or other breaches with regard to all liabilities during 2019 (2018: nil €). The increase of €6.7B in deposits results from various strategic initiatives, including: i) the transfer of assets and liabilities of Luxembourg branch of BNYM International limited to the one of BNY Mellon SA/NV totaling €3.3B, including clients as Blackrock, Invesco and Morgan Stanley, ii) TCIL transfer totaling €0.94B as well as due to iii) increase in business as usual by €1B and iv) increase in affiliate interest bearing deposits by €2.3B, mainly due to London Branch of the BNYM Institutional Bank. Other financial liabilities consist of lease liabilities as per IFRS 16.

19. Other Liabilities

| | 2019 | 2018 |
|--|------------------|------------------|
| | In € '000 | In € '000 |
| Employee benefits – Defined benefit obligation (Note 22.2) | 33,586 | 14,374 |
| Other employee benefits and social charges | 27,566 | 26,864 |
| Leasing liabilities | — | 109 |
| Accrued charges (other than from interest expenses on financial liabilities) | 69,401 | 46,488 |
| Accounts Payables | 219,962 | 142,461 |
| Other | 20,134 | 53,605 |
| | 370,649 | 283,902 |

Other liabilities caption increased mainly due to the account payables and accrued charges that increased by €78 Mio and €23 Mio respectively, due to i) global collateral management clients payables by €35 Mio, ii) securities holdover by €45 Mio and iii) increase in affiliates unbilled payables by €27 Mio. Contract liabilities were €0.86 Mio at 31 December 2019 (2018: €0.8 Mio) . Revenue recognised in 2019 relating to contract liabilities was €0.29Mio (2018: €0.58 Mio) .

20. Provisions

| | Restructuring Costs | Pending legal issues | Other provisions | Total |
|---|--------------------------------|---------------------------------|-----------------------------|----------------|
| | In € '000 | | | |
| At 1 January 2019 | 14,887 | — | 253 | 15,140 |
| Amounts provisioned | 4,074 | 165,701 | 369 | 170,144 |
| Amounts utilized | (9,180) | — | (515) | (9,696) |
| Unused amounts reversed during the period | (8,174) | — | (106) | (8,281) |
| Other movements | — | — | — | — |
| At 31 December 2019 | 1,607 | 165,701 | — | 167,307 |
| At 1 January 2018 | 2,257 | — | 2,734 | 4,991 |
| Amounts provisioned | 16,961 | — | 836 | 17,797 |
| Amounts utilized | (3,718) | — | (2,081) | (5,799) |
| Unused amounts reversed during the period | (614) | — | (1,234) | (1,847) |
| Other movements | — | — | (2) | (2) |
| At 31 December 2018 | 14,887 | — | 253 | 15,140 |

Please refer to note 26.1 for the description of the pending legal issues as at 31 December 2019. BNY Mellon SA/NV has implemented a restructuring plan over the past years that has led to job relocation and re-organization of certain functions across different locations. The Brussels office maintains client facing functions, specialized processing activities and numerous shared services functions. In 2019 BNY Mellon SA/NV German entities have released a significant part of severance reserves that were provisioned at the end of 2018. Other provisions in 2018 are mainly related to operational claims in Brussels and client tax reclaims in the German branch.

21. Subordinated Liabilities

BNY Mellon SA/NV is the borrower of a perpetual loan from a related party of €92.5 Mio (2018: 92.5 Mio) to be used for general corporate purposes. Interest accrue on the loan at the rate of 8.18% per annum based on the actual number of days elapsed and a year of 360 days.

BNY Mellon SA/NV is also the borrower of a loan maturing on 22 July 2040 from a related party of €253 Mio (2018: €253 Mio) to be used for general corporate purposes. Interest accrues on the loan at the rate of 8.75% per annum and is calculated on the basis of the actual number of days elapsed and a year of 360 days.

Both loans are considered as Tier 2 capital for regulatory purposes and each contract allows the National Bank to request the suspension of the repayment of the loan if BNY Mellon SA/NV does not comply with the applicable requirements on own funds or based on the financial situation and the solvability of BNY Mellon SA/NV.

There is no collateral required as per loan agreements for the two loans.

Notwithstanding the fact that the loans are perpetual or maturing on 22 July 2040, these may be repaid at the option of BNY Mellon SA/NV (after written approval of the National Bank of Belgium):

- After the 5th anniversary of the Drawdown date;
- In case of a Tier 1 disqualification event;
- In case of a tax event; or
- In any such other case as agreed by the NBB.

The repayment price will be an amount equal to the aggregate of the amount of the outstanding loan and, the amount of any accrued (or deferred) but unpaid interest on the loan.

Currently these loans are callable, as they are past the 5th anniversary of the drawdown dates. Management has postponed the process of reimbursing the debt until after the Covid 19 crisis has ended.

22. Retirement Benefit Plan

22.1. Defined Contribution Plan

BNY Mellon SA/NV has four defined contribution plans to which BNY Mellon SA/NV pays fixed contributions (two plans in the Netherlands, one in Luxembourg and one in Ireland); there is no legal or constructive obligation to pay further contributions. Moreover, in Belgium, a part of a hybrid scheme has a contribution base part, with a granted return. This part is therefore a cash balance scheme. This kind of Belgian scheme is treated as a defined benefit plan under IAS19 Standard.

The assets of the plans are held separately from those of BNY Mellon SA/NV in a fund under the control of trustees.

The total expense of €5.4 Mio (2018: €4.8 Mio) charged to the consolidated statement of profit and loss and other comprehensive income represents contributions payable to these plans by BNY Mellon SA/NV at rates specified in the rules of the plan.

22.2. Defined Benefit Plan

Employee benefits

During the year the group operated four defined benefit plans (or considered as such under IAS19 standards): two in Belgium and two in Germany. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Nature of benefits provided by the Plans

The German Plans are final salary plans and provide pension benefits linked to salary at retirement or earlier date of leaving service. The plans are open to future accrual. The first Belgian defined benefit Plan (“Old Plan”) provide pension or lump sum benefits and has been closed to new employees since April 2007. The second Belgian pension scheme (“New Plan”) is an hybrid scheme; Defined Benefit plan for the part of the salary limited to a ceiling and Cash Balance plan for the part of the salary above this ceiling.

Regulatory framework in which the Plans operates

The group operates defined benefit pension plans in Belgium and Germany under broadly similar regulatory frameworks.

German Plans: The plans operate under the framework of German company pension law (BetrAVG) and general regulations based on German labor law. The pension plans are closed for new employees. The main pension plans are frozen. The plans are partly funded with assets invested in funds.

Belgian Plans: The defined benefit pension plans (i.e. “Old Plan”) and the hybrid defined benefit pension plan/”cash balance” plan (i.e. “New Plan”) are financed by the plan Sponsor. Benefit payments are made from self-administered funds. The Fund is regulated by the FSMA (financial regulatory agency in Belgium). Minimum benefits are defined by the law.

Other entity's responsibilities for governance of the Plans

German Plans: None.

Belgian Plans: The Board of Directors is responsible for the governance of the Plans as well as for the governance and investments of the Fund’s assets. Benefit payments are made from the self-administered funds and Plan assets are held in the OFP, which are governed by local regulations and practice. Contributions paid by the sponsor are based on the financing plan. The Board of Directors are comprised of representatives of the company in accordance with local regulations and practice.

Risks to which the Plans expose the Company

- Asset volatility - If plan assets underperform the discount rate a deficit results. As the Belgian plans are partly invested in fixed income assets, there is a possibility of underperformance against the discount rate and so an increase to the deficit.

- Longevity - Increases in life expectancy will increase plan liabilities, the inflation-linkage of the benefits for the German and Belgian Plans also means that inflationary increases result in a higher sensitivity to increases in life expectancy.
- Inflation risk - The majority of benefits in the German plans are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). The Belgian Plan is less sensitive to inflation as a lump sum is provided at retirement.

Plan amendments, curtailments or settlements

No plan amendments, curtailments or settlements occurred during the financial year of 2019 or 2018.

Funding arrangements and funding policy that would affect future contributions

The funding requirements of the individual plans are based on the actuarial measurement frameworks sets out in the funding policies of the plans and are in accordance with the statutory requirements of the plans in the various jurisdictions. BNY Mellon SA/NV undertakes separate actuarial valuations for funding purposes for each of the individual plans and pays contributions to the plans in line with the outcomes of these valuations.

Asset-liability matching strategies

Investment positions are managed by Pension Fund managers within an ALM framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, ALM objective is to match assets to pension obligations by investing in long-term interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The company actively monitors the duration and the expected yield of the investments to ensure they are matching the expected cash flows arising from the pension obligations.

Movement in net defined benefit (asset) liability

The following table shows reconciliation from the opening balances to the closing balances for the net defined benefit (liability)/ asset and its components.

| | Defined benefit obligations | | Fair value of plan assets | | Net defined benefit (liability)/ asset | |
|--|-----------------------------|-----------------|---------------------------|----------------|--|-----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 |
| Balance at 1 January | (78,014) | (78,451) | 63,640 | 65,421 | (14,374) | (13,030) |
| Included in profit or loss | | | | | | |
| Current service cost | (2,522) | (2,682) | — | — | (2,522) | (2,682) |
| Administrative expenses | — | — | (89) | (67) | (89) | (67) |
| Losses/(gains) on non routine settlements | (887) | — | — | — | (887) | — |
| Operating expense/ (income) | (3,409) | (2,682) | (89) | (67) | (3,498) | (2,749) |
| Net interest on the net benefit obligation/ (asset) | (1,461) | (1,440) | 1,232 | 1,219 | (229) | (221) |
| Finance expense/ (income) | (1,461) | (1,440) | 1,232 | 1,219 | (229) | (221) |
| Net benefit expense | (4,870) | (4,122) | 1,143 | 1,152 | (3,727) | (2,970) |
| Included in other comprehensive income | | | | | | |
| Return on plan assets excluding interest income | — | — | 4,551 | (3,236) | 4,551 | (3,236) |
| Experience gains/ (losses) | 2,377 | (1,521) | — | — | 2,377 | (1,521) |
| Actuarial gains/(losses) arising from changes in financial assumptions | (26,014) | 787 | — | — | (26,014) | 787 |
| Actuarial gains/(losses) arising from changes in demographic assumptions | 583 | 3,143 | — | — | 583 | 3,143 |
| Total gains/ (losses) recognized | (23,054) | 2,409 | 4,551 | (3,236) | (18,503) | (827) |
| Other | | | | | | |
| Net transfers (in)/out | — | — | — | — | — | — |
| Contribution paid by the employer | — | — | 3,019 | 2,453 | 3,019 | 2,453 |
| Benefits paid | 1,436 | 2,150 | (1,436) | (2,150) | — | — |
| | 1,436 | 2,150 | 1,583 | 303 | 3,019 | 2,453 |
| Balance at 31 December | (104,502) | (78,014) | 70,917 | 63,640 | (33,585) | (14,374) |

The amounts of the defined benefit obligation and plan assets for the previous five years are reported below.

Net defined benefit (obligation)/asset

| 31 December | 2019 | 2018 | 2017 | 2016 | 2015 |
|----------------------------|------------------|------------------|------------------|------------------|------------------|
| | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 |
| Fair value of plan assets | 70,917 | 63,640 | 65,421 | 56,821 | 55,637 |
| Defined benefit obligation | (104,502) | (78,014) | (78,451) | (84,195) | (74,957) |
| As of 31 December | (33,585) | (14,374) | (13,030) | (27,374) | (19,320) |

BNY Mellon SA/NV expects to contribute €2.48 Mio to its defined benefit pension plan in 2019 (2018: €2.48 Mio). The cumulative amount of gains and losses recognized in other comprehensive income is presented below:

Gains and losses recognized in other comprehensive income

| | 2019 | 2018 |
|----------------------------|------------------|------------------|
| | In € '000 | In € '000 |
| As of 1 January | 10,221 | 9,595 |
| Recognized during the year | 18,643 | 626 |
| As of 31 December | 28,864 | 10,221 |

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows (weighted average):

| | 2019 | 2018 |
|--|-------------|-------------|
| Equity instruments (all quoted), of which: | 60.8% | 59.9% |
| <i>Domestic equities</i> | 19.0% | 17.5% |
| <i>Overseas equities</i> | 36.6% | 36.8% |
| <i>Emerging markets equities</i> | 5.2% | 5.6% |
| Debt instruments, of which: ¹⁴ | 32.3% | 31.9% |
| <i>Corporate/government bonds</i> | 32.3% | 31.9% |
| Property (all quoted) | 4.8% | 3.8% |
| Cash | 0.5% | 1.6% |
| <i>Quoted</i> | 0.4% | 1.5% |
| <i>Unquoted</i> | 0.1% | 0.1% |
| | 100% | 100% |

¹⁴ Investments in funds are included in the categories of Debt Instruments. The sub-categories reflect the underlying assets of the fund.

The sector allocation of the equity instruments is as follows:

| | 2019 | 2018 |
|--|------------------|------------------|
| | In € '000 | In € '000 |
| Equity instruments, of which: | 43,116 | 38,126 |
| Energy, industrial companies and materials | 10,172 | 8,147 |
| Consumer Discretionary and Staples | 10,023 | 9,911 |
| Financials | 8,480 | 8,411 |
| Health Care | 3,397 | 3,168 |
| Information Technology | 9,690 | 7,416 |
| Other | 1,354 | 1,074 |

Substantially the equity securities and bonds are issued in EUR currency (56.76%, 2018: 54.51%) and traded in active markets. All government bonds are issued by European governments. All bonds are rated as follows:

| | 2019 | 2018 |
|--------------------------------|-------------|-------------|
| AAA | 9.9% | 12.1% |
| AA | 17.2% | 18.8% |
| A | 36.2% | 36.1% |
| Not rated (2018: BBB, BB or B) | 36.7% | 33.0% |

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on behalf of BNY Mellon SA/NV at 31 December 2019. The present values of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

Actuarial assumptions and sensitivity analysis

Assumptions are set based on actuarial advice with reference to the duration of the individual plans and market conditions in each territory. These individual plan assumptions are equivalent to liability-weighted assumptions as follows:

| | 2019 | 2018 |
|-------------------------|-------------|-------------|
| Discount rate | 1.20% | 1.90% |
| Future salary growth | 3.45% | 2.70% |
| Future pension increase | 1.75% | 1.75% |

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into the average life expectancy underlying the values of the defined benefit obligation at the reporting date as per below:

| | 2019 | 2018 |
|--|-------------|-------------|
| Longevity at age 65 for current pensioners | | |
| Males | 24.3 | 21.5 |
| Females | 25.3 | 25.2 |
| Longevity at age 65 for current members aged 45 | | |
| Males | 25.1 | 22.3 |
| Females | 25.9 | 25.9 |

Based on the assumptions set out above, the impact on the present value of the defined benefit obligations of changing the following individual assumptions (with all other assumptions remaining unchanged) is set out below.

| Value of obligations at year end if (In '€000) : | Movement | 31 December 2019 |
|---|-----------------|-------------------------|
| Discount rate reduced by | 1.00% | 135,166 |
| Discount rate increased by | 1.00% | 85,073 |
| Inflation reduced by | 1.00% | 98,753 |
| Inflation increased by | 1.00% | 115,913 |
| Life expectancy decreased by | 1 year | 104,554 |
| Life expectancy increased by | 1 year | 108,744 |

The above analysis assume that assumption changes occur in isolation. In practice this is unlikely to occur and some assumptions may be correlated, such as pension increases and RPI inflation. The same method (project unit method) has been applied when calculating these sensitivities.

23. Issued Capital and Reserves

| Authorized, issued and fully paid | 2019 | 2018 |
|--|----------------|----------------|
| | In '000 | In '000 |
| Ordinary shares of 1038.5 € each (2018: 976.7 €) | 1.689 | 1.672 |
| % Convertible preference shares | - | - |
| | 1.689 | 1.672 |

BNY Mellon has share option schemes under which options to subscribe for the BNY Mellon's shares have been granted to certain executives and senior employees of BNY Mellon SA/NV. On December 1, 2019 BNYM Mellon SA/NV merged BNY Mellon Trust Company Ireland Limited (TCIL) into BNY Mellon SA/NV Dublin branch. This common control transaction resulted in an issuance by BNY Mellon SA/NV of 17,370 new ordinary shares in exchange of the 30 shares of TCIL, representing a capital increase of €30.9 Mio.

24. Fair Value of Financial Instruments

24.1. Determination of Fair Value and Fair Value Hierarchy

BNY Mellon SA/NV uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Level 1 prices are available from an exchange, a dealer, broker or a similar counterparty. The fair value measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices with no valuation (modeling) technique needed.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. Observable inputs imply existence of an

active market and should be used in preference to unobservable inputs. Risk free rates and exchange rates are observable inputs. Valuation techniques based on observable inputs are referenced to the current fair value of a similar instrument or a discounted cash flow model.

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The level 3 category implies that there is no active market and that assumptions hence internally developed valuation techniques are put in place to determine the fair value of the financial instrument.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy of BNY Mellon SA/NV:

| 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|-------------------|------------------|------------------|-------------------|
| | In € '000 | In € '000 | In € '000 | In € '000 |
| Financial assets | | | | |
| Derivative financial instruments | | | | |
| <i>Forward foreign exchange contracts</i> | — | 158,006 | — | 158,006 |
| Financial investments at FVOCI (Quoted) | | | | |
| <i>Debt securities</i> | 12,098,541 | — | — | 12,098,541 |
| | 12,098,541 | 158,006 | — | 12,256,547 |
| Financial liabilities | | | | |
| Derivative financial instruments | | | | |
| <i>Forward foreign exchange contracts</i> | — | 162,565 | — | 162,565 |
| | — | 162,565 | — | 162,565 |
| 2018 | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | In € '000 | In € '000 | In € '000 | In € '000 |
| Financial assets | | | | |
| Derivative financial instruments | | | | |
| <i>Forward foreign exchange contracts</i> | — | 295,091 | — | 295,091 |
| Financial investments available-for-sale (Quoted) | | | | |
| <i>Debt securities</i> | 11,723,022 | 204,427 | — | 11,927,449 |
| | 11,723,022 | 499,519 | — | 12,222,540 |
| Financial liabilities | | | | |
| Derivative financial instruments | | | | |
| <i>Forward foreign exchange contracts</i> | — | 304,085 | — | 304,085 |
| | — | 304,085 | — | 304,085 |

BNY Mellon SA/NV did not transfer any financial instruments from level 1 to level 2 and from level 1 and level 2 to level 3 of the fair value hierarchy in 2019 or 2018. The investment securities in level 2 on 31 December 2018 matured in 2019.

BNY Mellon SA/NV reassessed its presentation of the fair value hierarchy of financial liabilities in 2018 and considers that the Level 2 reflects better the valuation technics used to estimate the value of financial liabilities given that the valuation is not derived directly from currently available transaction prices.

24.2. Financial Instruments Recorded at Fair Value

A description of the determination of fair value per class of financial instruments is presented below. The fair value determinations incorporate BNY Mellon SA/NV's estimate of assumptions that a market participant would make when valuing the instruments.

24.2.1. Derivatives

All BNY Mellon SA/NV OTC derivative products are valued using internally developed models that use as their basis readily observable market parameters and as a result these are classified as Level 2 of the valuation hierarchy. Such derivatives comprise the forward foreign exchange contracts used for treasury management.

As of December 2019 and 2018, the credit valuation/ debit valuation adjustment (CVA/DVA) was determined to be immaterial, hence it was not adjusted.

24.2.2. Financial Instruments – FVOCI

The financial assets measured at fair value through other comprehensive income that are classified within Level 1 mainly consist of government securities that are actively traded in highly liquid over-the-counter markets. These securities are valued using recent quoted unadjusted prices.

If quoted market prices are not available, the fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For securities where quotes from recent transactions are not available for identical securities, BNY Mellon SA/NV determines fair value primarily based on pricing sources with reasonable levels of price transparency. Specifically, the pricing sources obtain recent transactions for similar types of securities (e.g. vintage, position in the securitization structure) and ascertain variables such as speed of prepayment and discount rate for the types of transaction and apply them to similar types of bonds. BNY Mellon SA/NV does not have such securities at 31 December 2019.

24.3. Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements:

24.3.1. Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

24.3.2. Assets for which Fair Value does not Approximate Carrying Value

For investment securities measured at amortized cost, for which we disclose a fair value, we determined quoted market prices to be the appropriate fair value measurement when available.

For financial assets and financial liabilities, where quoted market prices are not available, we generally base the fair value of loans on observable market prices of similar instruments,

including bonds, credit derivatives and loans with similar characteristics. If observable market prices are not available, we base the fair value on estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loans.

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. As BNY Mellon SA/NV has high quality counterparts, credit risk does not significantly influence the fair value. From an economic viewpoint, credit risk is very low at BNY Mellon SA/NV. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. Set out below is a comparison, by class, of the carrying amounts and fair values of BNY Mellon SA/NV's financial instruments that are not carried at fair value in the consolidated financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

| | 2019 | | 2018 | |
|---|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | | | | |
| Cash and cash balances with central banks | 10,754,991 | 10,754,991 | 6,238,261 | 6,238,261 |
| Loans and advances to customers | 8,834,550 | 8,834,550 | 6,535,177 | 6,535,177 |
| Debt instruments at amortised cost - Quoted | 597,777 | 603,158 | 590,295 | 597,038 |
| Financial liabilities | | | | |
| Financial liabilities at amortized cost | 28,986,413 | 28,986,413 | 22,298,108 | 22,298,108 |

The table below shows the interest income and expense that relates to financial instruments measured at amortized cost:

| Interest income from financial instruments measured at amortized cost | 2019 | 2018 |
|---|----------------|----------------|
| | in € '000 | in € '000 |
| Loans and advances to customers | 132,546 | 112,599 |
| Debt instruments at amortised cost - Quoted | 2,044 | 6,462 |
| Total | 134,590 | 119,061 |
| | | |
| Interest expense from financial instruments measured at amortized cost | 2019 | 2018 |
| | in € '000 | in € '000 |
| Deposits | 146,676 | 132,396 |
| Subordinated loans | 30,117 | 30,117 |
| Lease liabilities (note 26.4) | 293 | — |
| Total | 177,086 | 162,512 |

25. Share-based Payment

The share-based payment plans are described below. There have been no cancellations of or modifications to, any of the plans during 2019.

A Long Term Incentive Plan is operated by BNY Mellon, under which both stock options and restricted stock units are granted to senior employees.

Restricted Stock Units are issued under the plan and generally vest in ¼ increments each year. The expense recognized for employee services received during the year is shown in the following table:

| | 2019 | 2018 |
|--|--------------|--------------|
| | In € '000 | In € '000 |
| Expense arising from equity-settled share-based payment transactions | 2,482 | 1,602 |
| Total expense arising from share-based payment transactions | 2,482 | 1,602 |

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year. The WAEP has been converted to EUR based on the monthly average rates.

Options

| | 2019 | | | 2018 | | |
|---|--------|-------------|-------------|---------|-------------|-------------|
| | No. | WAEP USD | WAEP EUR | No. | WAEP USD | WAEP EUR |
| Outstanding at the beginning of the year | 80,688 | 26.77 | 22.67 | 133,206 | 27.04 | 23.88 |
| Exercisable at the beginning of the year | 80,688 | 26.77 | 22.67 | 133,206 | 27.04 | 23.88 |
| Staff transfers due to organisational changes ¹⁵ | 1,075 | — | — | 1,063 | — | — |
| Granted and vested during the year | — | — | — | — | — | — |
| Exercised during the year | 22,150 | 23.88 | 21.50 | 50,058 | 31.11 | 26.34 |
| Expired during the year | — | — | — | 1,397 | — | — |
| Outstanding at the end of the year | 59,613 | 27.02 | 24.33 | 80,688 | 26.77 | 22.67 |
| Exercisable at the end of the year | 59,613 | 27.02 | 24.33 | 80,688 | 26.77 | 22.67 |

¹⁵ Staff transfers include the internal transfer of: 1) 1.075 options and 455 restricted stocks from BNYM Luxembourg entity of BNYM UK Bank to the BNYM Luxembourg bank that merged with BNYM SA/NV; 2) 2.424 restricted stocks from BNYM UK bank to various branches of BNY Mellon SA/NV and 3) 3.453 restricted stock coming from TCIL entity into Dublin branch of BNY Mellon SA/NV.

Restricted stock

| | 2019 | 2018 |
|---|-------------|-------------|
| | No. | No. |
| Outstanding at the beginning of the year | 71,681 | 81,917 |
| Staff transfers during the year (see footnote 13) | 6,332 | 398 |
| Granted during the year | 57,668 | 35,640 |
| Vested and exercised during the year | 48,540 | 44,444 |
| Forfeited during the year | 1,029 | 1,034 |
| Outstanding at the end of the year | 86,112 | 71,681 |
| Non vested expected to vest at year end | 85,141 | 70,765 |

The weighted average remaining contractual life of options outstanding at year end varies for different entities between 0.56 years and 1.84 years (2018: 1.88 years).

The range of exercise price of options outstanding at year end is from USD 18.02 to USD 30.25 (2018: USD 18.02 to USD 30.20).

The expected life of options and expected volatility of BNY Mellon stock both are based on historical data and hence reflect the assumption that historical data is indicative of future trends, which may also not necessarily be the actual outcome. No other features of option grants were incorporated into the measurement of fair value.

The share price and exercise price are the same and equal the price of BNY Mellon stock on the date of grant. No stock options were granted during the past years and thus there is no available input data to the model used for equity-settled options for the years ended 31 December 2019 and 2018.

26. Other information

26.1. Legal Claims

In 2013 a Swedish Arbitral Tribunal issued an award of over USD500m against the Republic of Kazakhstan ("RoK") in favour of Anatolie Stati, Gabriel Stati, Ascom Group S.A. and Terra Raf Trans Trading Ltd (together the "Stati Parties"). This award has been upheld by the Swedish Supreme Court. The Stati Parties have sought to legally enforce this award in numerous jurisdictions against RoK's assets held by any party. In October 2017 BNYM SA/NV London Branch ("SA/NV") was served with a conservatory garnishment order in Belgium, ordering SA/NV to freeze certain assets belonging to RoK and its National Fund. Accordingly, and in compliance with SA/NV's legal obligations, SA/NV froze assets held by its client, the National Bank of Kazakhstan ("NBK"), for the National Fund. On 25 May 2018 the amount of the Belgian freeze was reduced, but remains in place pending the outcome of further legal proceedings in England regarding the nature of the relationship among RoK, NBK and SA/NV and the accuracy of SA/NV's prior statements as the garnishee in the Belgian proceedings. No damages are sought against the SA/NV and the claim being brought is declaratory in nature only. On 22 April 2020 the English Court handed down judgment and determined certain English law questions in what has become a complex dispute litigated in several countries. However, certain questions concerning the relationship between RoK/NBK have been referred the matter back to the Belgian

court. Previously, the English High Court and Court of Appeal dismissed NBK/RoK's lawsuit against SA/NV where court rulings were sought stating that SA/NV were not contractually entitled to freeze the assets in question. No provision has been booked.

German authorities are investigating past "cum/ex" trading, which involved the purchase of equity securities on or shortly before the dividend date, but settled after that date, potentially resulting in an unwarranted refund of withholding tax. German authorities have taken the view that past cum/ex trading may have resulted in tax avoidance or evasion. The Bank of New York Mellon SA/NV ("BNY Mellon SA/NV") and BNY Mellon Service Kapitalanlage-Gesellschaft mbH ("BNYM KVG") have been informed by German authorities about investigations into potential cum/ex trading by certain third-party investment funds, where BNYM SA/NV had acquired entities that served as depository and/or fund manager for those third-party investment funds. BNY Mellon SA/NV and BNYM KVG have received information requests from the authorities relating to pre-acquisition activity and are cooperating fully with those requests. Neither BNY Mellon SA/NV nor BNYM KVG have received any tax demand concerning cum/ex trading. In August 2019, the District Court of Bonn ordered that BNYM KVG be joined as a secondary party in connection with the prosecution of unrelated third parties. Trial commenced in September 2019, of which a decision is expected in 2020. In connection with the acquisition of the subject entities, BNY Mellon SA/NV obtained an indemnity for liabilities from the sellers that BNY Mellon SA/NV intends to pursue as necessary. The provision booked with respect to this legal matter has been determined based on management judgment of the most likely expenditure (including legal interest; no penalties are expected). There is estimation uncertainty in the final outcome of this legal matter.

The Dutch Tax Authorities ("DTA") are investigating a number of Dutch dividend withholding tax ("DWT") reclaims filed by BNYM as part of its global custody business between 2014 - 2017. BNY Mellon SA/NV provides DWT reclaim services in the Netherlands for clients who hold Dutch issued securities. The provision of these services by BNY Mellon SA/NV is via an electronic portal that is owned and controlled by the DTA. On 16 December 2019 BNYM SA/ NV received tax assessments in the sum of €1.63Mio (including interest) for the year 2014. On 4 February 2020, BNY Mellon SA/NV also received formal tax assessments for the years 2015-2017 in the sum of €12.04Mio (including interest). These tax assessments relate to former BNY Mellon clients. This provision will be reimbursed by the Company of the Group that holds the contractual relationships with the clients for which a reimbursement asset has been accrued.

26.2. Off-balance Sheet

The off-balance sheet items consist mainly of: (i) the assets under custody (AUC) totaling €2,870B as of 31 December 2019 (2018: €2,373B), and (ii) other given and received commitments.

The increase of AuC in 2019 by €497B is mainly due to: i) the move of Blackrock, Morgan Stanley and Invesco clients from BNY Mellon Luxembourg UK bank to BNY Mellon Luxembourg branch of BNY Mellon SA/NV and ii) assets under custody from TCIL merger.

The breakdown of the off-balance sheet positions are provided in the table below.

Overview of off balance sheet positions:

| CATEGORY | 2019 | 2018 |
|--|-----------|-----------|
| | In € Mio | In € Mio |
| Commitments given (repurchase agreements) | 20 | 0 |
| Financial guarantees received for state guaranteed bonds (Note 28.2.4) | 1,852 | 802 |
| Securities received as collateral (Note 26.3) | 183 | 173 |
| Other commitments received (Note 26.3) | 1,000 | 1,250 |
| Assets under custody | 2,870,038 | 2,373,071 |

The amount of assets under custody received, split by currency at 31 December 2019, are presented in the table below:

| | 2019 | | | 2018 | | |
|----------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | EUR | Other currency | Total | EUR | Other currency | Total |
| | In € 'Mio | In € 'Mio | In € 'Mio | In € 'Mio | In € 'Mio | In € 'Mio |
| Assets under custody | 1,191,511 | 1,678,527 | 2,870,038 | 1,042,542 | 1,330,529 | 2,373,071 |
| | 1,191,511 | 1,678,527 | 2,870,038 | 1,042,542 | 1,330,529 | 2,373,071 |

26.3. Collateral and other commitments received

On the 3rd of February 2016, BNY Mellon SA/NV signed a financial guarantee agreement with the Taipei Branch of Sumitomo Mitsui Banking Corporation (SMBC) to cover all nostro exposures of BNY Mellon SA/NV against HSBC Bank (Taiwan) Limited up to €250 Mio.

On the 11th of February 2016, BNY Mellon SA/NV signed an Unfunded Credit Risk Mitigation Agreement with the London branch of BNY Mellon Institutional Bank to cover the part of exposures exceeding the prudential limit (25% of own funds) on external counterparties for maximum €1 Bln.

On 25 February 2016, BNY Mellon SA/NV signed a collateral agreement with Deutsche Bank AG to cover exposures incurred by BNY Mellon SA/NV's cash deposits to Deutsche Bank AG and its branches in its capacity of sub-custodian.

26.4. Leasing

BNY Mellon SA/NV has entered into a number of leases on premises and equipment. These leases typically have an average life of 0.96 years for machine and equipment, of 2.04 for cars and 4.15 years for premises with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Previously these leases were classified as operating leases under IAS 17.

Information about leases for which BNY Mellon SA/NV is a lessee is presented below. The right-of-use assets relate to leased branches and head office premises, cars and other equipment and are presented within property and equipment category on the face of the balance sheet (please see note 16). The comparatives were not restated.

| | 2019 |
|----------------------------------|----------------|
| | In '000 |
| Right-of-use assets | |
| Balance at 1 January | 39,873 |
| Depreciation charge for the year | (9,592) |
| Additions | 8,614 |
| Balance at 31 December | 38,895 |

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

| | 2018 |
|---|----------------|
| | In '000 |
| Within one year | 10,719 |
| After one year but not more than five years | 36,904 |
| More than five years | 8,448 |
| | 56,072 |

The amounts recognised in profit or loss for the years 2019 and 2018 were:

| | 2019 | 2018 |
|---|----------------|----------------|
| | In '000 | In '000 |
| Interest on lease liabilities | 293 | — |
| Expenses relating to short-term leases/low value assets | — | — |
| Operating lease expense under IAS 17 | — | 11,773 |
| | 293 | 11,773 |

BNY Mellon SA/NV has classified cash payments for the principal portion of lease payments as financing activities and cash payments for interest portion as operating activities consistent with the presentation of other interest payments.

Amounts recognized in the statement of cash flows were as follows:

| | 2019 |
|---------------------------------------|----------------|
| | In '000 |
| Outflows for operating activities | 293 |
| Outflows for financing activities | 11,400 |
| Total cash outflows for leases | 11,693 |

27. Related Party Disclosures

27.1. Key Management Compensation

Key management personnel refer to the members of the Board of Directors, the Committees of the Board of Directors and senior management as set out in the Report of the Board of Directors.

| | 2019 | 2018 |
|------------------------------|------------------|------------------|
| | In € '000 | In € '000 |
| Short-term employee benefits | 2,962 | 2,716 |
| Post-employment benefits | 93 | 93 |
| Other long-term benefits | 17 | 15 |
| Share based payments | 145 | 140 |
| | 3,218 | 2,964 |

Short-term employee benefits section consists of salaries of €2,595.32 thousand (2018: €2,357 thousand), social charges of €319.2 thousand (2018: €317 thousand) and pension expenses of €47.88 thousand (2018: €43 thousand). The increase is mainly due to the remuneration of the key executives .

Post-employment benefits of the key management are an estimation of extra-legal pension contribution. Other long term benefits are the contributions to the death-in-service reinsurance and long term disability.

More information regarding the share based payments are disclosed in Note 25.

27.2. Transactions with Key Management Personnel of BNY Mellon SA/NV

BNY Mellon SA/NV does not enter into transactions, arrangements and agreements involving directors, senior management and their relatives. There are no mortgages or any personal loans granted to key management. Therefore there is nothing to report as transactions with key management.

27.3. Transactions with Related Parties

The following is a summary of the balances relating to transactions with BNY Mellon SA/NV's parent (i.e. ultimate parent and ultimate controlling party only), the companies included in its parent's consolidated financial statements and other companies related to BNY Mellon group. The outstanding balances and transactions with own subsidiaries are included for presentation purposes only, since these transactions are eliminated for the consolidation scope.

Amounts payable to and amounts receivable from related parties

| | 2019 | | | 2018 | | |
|----------------------------|------------------|------------------|-----------------------------|------------------|------------------|-----------------------------|
| | Parent | Own subsidiaries | Other entities of the group | Parent | Own subsidiaries | Other entities of the group |
| | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 |
| Assets: loans and advances | 4,035,741 | 3 | 383,141 | 2,459,917 | 2 | 368,347 |
| Current accounts | 4,017,996 | 3 | 71,036 | 2,450,672 | 2 | 368,347 |
| Term loans | 17,746 | — | 312,105 | 9,245 | — | — |
| Other receivables | 161,211 | 22,057 | 6,426 | 262,233 | 523 | 9,341 |
| TOTAL ASSETS | 4,196,952 | 22,062 | 389,566 | 2,722,150 | 527 | 377,688 |
| Deposits | 5,785,596 | 116,610 | 700,412 | 3,334,888 | 10,718 | 905,274 |
| Subordinated liabilities | — | — | 358,124 | — | — | 358,755 |
| Other liabilities | 69,469 | 1,668 | 12,125 | 38,940 | 472 | 7,423 |
| TOTAL LIABILITIES | 5,855,065 | 118,278 | 1,070,661 | 3,373,828 | 11,189 | 1,271,452 |

Income and expense generated by transactions with related parties

| | 2019 | | | 2018 | | |
|----------------------|----------------|------------------|-----------------------------|----------------|------------------|-----------------------------|
| | Parent | Own subsidiaries | Other entities of the group | Parent | Own subsidiaries | Other entities of the group |
| | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 |
| Interest income | 67,472 | 171 | 8,344 | 57,061 | 33 | 5,802 |
| Fees and commissions | 248,624 | 1,404 | 35,665 | 352,542 | 3,084 | 49,429 |
| Other | 908 | 1,398 | 362 | 202 | 335 | 36 |
| TOTAL INCOME | 317,005 | 2,973 | 44,371 | 409,805 | 3,452 | 55,267 |
| Interest expense | 44,266 | 4 | 36,162 | 73,636 | 5 | 37,960 |
| Fees and commissions | 130,803 | 1,724 | 38,172 | 153,486 | 2,811 | 30,084 |
| Other | 59,755 | 69,284 | 13,345 | 52,717 | 29,510 | 10,577 |
| TOTAL EXPENSE | 234,824 | 71,012 | 87,679 | 279,840 | 32,326 | 78,620 |

27.4. Terms and Conditions of Transactions with Related Parties

The outstanding balances arise from the ordinary course of business. Outstanding balances at the year-end are unsecured. Nonetheless, the term deposits with BNY Mellon are covered by a master agreement that contains a right to withdraw prior to maturity date subject to early withdrawal penalty (break clause). For the year ended 31 December 2019, receivables on related parties are not considered to be doubtful and hence no provision for doubtful debt has been made.

27.5. Consolidated Subsidiaries and Branches and Key Financial Performance Figures by Geographical Location

The consolidated financial statements include the separate financial statements of BNY Mellon SA/NV which includes its branches and the subsidiaries in the following table:

| Branches | Country of incorporation | Nature of activity |
|--|--------------------------|--|
| | | 2019 |
| The Bank of New York Mellon SA/NV - Amsterdam Branch | Netherlands | Asset Servicing, Markets |
| The Bank of New York Mellon SA/NV - London Branch | United Kingdom | Asset Servicing, Corporate Trust, Markets |
| The Bank of New York Mellon SA/NV - Frankfurt Branch | Germany | Asset Servicing, Corporate Trust, Markets. |
| The Bank of New York Mellon SA/NV - Luxembourg Branch | Luxembourg | Asset Servicing, Corporate Trust, Markets |
| The Bank of New York Mellon SA/NV – Milan Branch | Italy | Corporate Trust |
| The Bank of New York Mellon SA/NV | Belgium | Asset Servicing, Broker/Dealer Services, Markets |
| The Bank of New York Mellon SA/NV - Dublin Branch | Ireland | Asset Servicing, Corporate Trust, Markets |
| The Bank of New York Mellon SA/NV - French Branch | France | Corporate Trust |
| BNY Mellon Service Kapitalanlage - Gesellschaft mbH (subsidiary) | Germany | Asset Servicing |

| Name of Subsidiary | Country of incorporation | % equity interest | % equity interest |
|--|--------------------------|-------------------|-------------------|
| | | 2019 | 2018 |
| BNY Mellon Service KVG | DE | 100% | 100% |
| Stichting Administratiekantoor BNY Mellon Global Custody | NL | 100% | 100% |
| BNY AIS Nominees Limited | IE | 100% | 0% |

The turnover, profit before tax and after tax consolidated into the consolidated statement of profit and loss of BNY Mellon SA/NV as well as the number of employees (full time equivalent) are presented by location in the table below:

| Branches | Turnover* | Profit before tax | Profit after tax | No of FTE (equivalent) |
|---|----------------|-------------------|------------------|------------------------|
| | In € '000 | In € '000 | In € '000 | |
| The Bank of New York Mellon SA/NV | 353,916 | 217,648 | 178,538 | 543 |
| The Bank of New York Mellon SA/NV - London Branch | (3,245) | (7,315) | (15,222) | — |
| The Bank of New York Mellon SA/NV - Amsterdam Branch | 57,706 | 32,842 | 29,127 | 135 |
| The Bank of New York Mellon SA/NV - Dublin Branch | 62,070 | 24,120 | 18,253 | 362 |
| The Bank of New York Mellon SA/NV - Luxembourg Branch | 73,178 | 22,544 | 12,584 | 217 |
| BNY Mellon Service Kapitalanlage - Gesellschaft mbH | 18,225 | (2,009) | (2,469) | 72 |
| The Bank of New York Mellon SA/NV - Frankfurt Branch | 11,839 | (182,302) | (182,368) | 168 |
| The Bank of New York Mellon SA/NV - Italian Branch | 7,651 | 2,008 | 1,851 | 24 |
| The Bank of New York Mellon SA/NV - French Branch | 2,390 | (258) | (321) | 8 |
| Total | 583,729 | 107,277 | 39,974 | 1,529 |

*Turnover comprises interest income, fee and commission income, gains on non-qualifying economic hedges, gains from sale of FVOCI debt securities and non-trading gains from exchange differences.

27.6. Business Combinations

No business combinations occurred in 2018.

On 1 December 2019, BNY Mellon Trust Company Ireland Limited ("TCIL") has been integrated into The Bank of New York Mellon SA/NV Dublin branch. On merger date this resulted in an issuance by BNY Mellon SA/NV of 17,370 new ordinary shares in exchange of all assets and liabilities of TCIL.

In line with the accounting policies applied for common control transactions (see 1.6.13), BNY Mellon SA/NV has applied book value accounting for this common control transaction. The book value of TCIL is the book value as reflected in the stand-alone statutory financial statements of the acquired entity as of the date the common control transaction has taken place (1 December 2019). The merger is done under IFRS accounting policies, based on the Annual Accounts of TCIL and Consolidated Annual Accounts of SA/NV both in IFRS.

Details of the impact of the merger of TCIL, applying common control transaction accounting principles, on the BNY Mellon SA/NV's results for the year ended 31 December 2019 and the financial position as at 31 December 2019 are set out below.

| | In € '000 Excluding TCIL | In € '000 Impact TCIL | In € '000 Total |
|---|--------------------------------|-----------------------------|--------------------|
| ASSETS | | | |
| Cash and cash balances with central banks | 10,754,991 | — | 10,754,991 |
| Financial assets held for trading | 158,006 | — | 158,006 |
| Loans and advances to customers | 8,809,739 | 24,810 | 8,834,550 |
| Investment securities ¹⁶ | 12,683,541 | 12,777 | 12,696,318 |
| Current tax assets | 25,516 | — | 25,516 |
| Other assets | 298,535 | 27,408 | 325,943 |
| Property, plant and equipment | 49,020 | — | 49,020 |
| Goodwill and other intangible assets | 27,140 | 5,151 | 32,291 |
| Deferred tax assets | 3,944 | — | 3,944 |
| TOTAL ASSETS | 32,810,433 | 70,146 | 32,880,579 |
| LIABILITIES | | | |
| Derivatives financial instruments | 162,565 | — | 162,565 |
| Financial liabilities measured at amortized cost | 28,978,503 | 7,910 | 28,986,413 |
| Current tax liabilities | 38,367 | — | 38,367 |
| Provisions | 167,308 | — | 167,308 |
| Other liabilities | 370,649 | — | 370,649 |
| Deferred tax liabilities | 16,316 | — | 16,316 |
| TOTAL LIABILITIES | 29,733,709 | 7,910 | 29,741,618 |
| EQUITY | | | |
| Issued capital | 1,723,486 | 30,900 | 1,754,386 |
| Share premium | 33,333 | — | 33,333 |
| Retained earnings and other reserves | 1,319,883 | 31,359 | 1,351,242 |
| TOTAL EQUITY | 3,076,702 | 62,259 | 3,138,961 |
| TOTAL LIABILITIES AND EQUITY | 32,810,410 | 70,169 | 32,880,579 |
| STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME | | | |
| Net interest income | 109,715 | 385 | 110,100 |
| Net fee and commission income | 422,923 | 4,983 | 427,907 |
| Other operating income | 5,465 | 432 | 5,897 |
| Net operating income | 579,632 | 5,800 | 585,432 |
| Personnel costs | 158,766 | 698 | 159,464 |
| Administration costs and other operating expenses | 152,462 | 1,883 | 154,345 |
| Depreciation and amortization (other than goodwill) | 14,937 | 43 | 14,980 |
| Profit before taxes from continuing operations | 106,180 | 3,175 | 109,355 |
| Tax expense (income) related to profit or (loss) from continuing operations | 66,856 | 448 | 67,304 |
| NET PROFIT FOR THE YEAR | 39,324 | 2,727 | 42,052 |

The 'Impact TCIL' column balance sheet data is presented as at 1 December 2019 merger date and the statement of profit (loss) data has been pro-rated to present 1 month of activity as of 31 December 2019, as a proxy for year-end balances.

As of merger date and on 31 December 2019 TCIL had no cash and cash equivalent balances with central banks, hence no impact on the cash flow movement of BNY Mellon SA/NV.

28. Risk Management

¹⁶ All investment securities of TCIL were sold in December as they did not comply to IFRS 9 business models of BNY Mellon SA/NV; hence no such securities were in the balance at the reporting period.

28.1. General

BNY Mellon SA/NV acknowledges risk taking as a fundamental characteristic of providing financial services. It is inherent to the business of banking and arises in every transaction BNY Mellon SA/NV undertakes. The capacity to take risk and pursue profits is constrained by the balance sheet and the reputation of the BNY Mellon brand in the marketplace as well as by regulatory requirements.

BNY Mellon SA/NV adheres to BNY Mellon's global risk culture. BNY Mellon places significant importance on continually improving and strengthening its risk management approach and capabilities, including strong governance, policy, process, risk measurement and appropriate incentives. This emphasis, in conjunction with a defined strategy and focused programs related to risk awareness, has fostered a sound and evident risk culture throughout the company.

The Risk Function's goal is to establish and maintain a strong, adequately resourced, and forward looking BNY Mellon SA/NV Risk function that is well placed to identify and manage emerging risks in a timely manner, by legal entity and business.

Risk Management provides independent oversight that risks are adequately identified and measured, remain commensurate to the risk appetite and that there is an appropriate balance between risk and associated risk mitigation costs, and provides independent challenge to the business.

BNY Mellon SA/NV Risk Management develops, maintains and ensures compliance with specific regulations for risk governance and oversight, risk culture, risk function, risk management framework (including risk appetite statement, risk policies, risk management procedures), risk management operating model (including risk registers & Management Information) and risk models oversight, in accordance with the BNY Mellon regional model and recognizing best market practice to ensure the BNY Mellon SA/NV businesses develop in a risk controlled environment. It encourages a proactive culture of managing risks.

28.1.1. Risk Management Framework

Risk Appetite

BNY Mellon defines risk appetite as “the level of risk it is normally willing to accept while pursuing the interests of our major stakeholders, including our clients, shareholders, employees and regulators”. The Risk Appetite Statement (RAS) defines metrics and controls to measure and monitor risks relative to the risk appetite. These metrics establish risk thresholds through qualitative and quantitative expressions of risk appetite to monitor risk-taking activities.

The Risk Appetite of BNY Mellon SA/NV constitutes the risk limiting perimeter within which the Head Office, Branches and Subsidiary must operate.

The Board owns and defines the RAS, and is responsible for annually reviewing it and approves any amendment. The Risk Appetite Metrics Report is actively monitored, and managed by the BNY Mellon SA/NV Executive Committee through a defined governance and set of delegated controls to ensure that the performance of business activities remains within risk appetite levels. The Risk Appetite is reviewed if the risk profile changes or at least annually. It is governed by a Group Policy.

The Board of BNY Mellon SA/NV adopts a prudent appetite to all elements of risk to which it is exposed. Business activities are managed and controlled in a manner consistent with the Board’s stated tolerances using defined quantitative and qualitative measurements. The Board of Directors has sought to establish a clear set of tolerances for its business and has articulated it’s appetite through a series of statements and metrics.

28.1.2. Committees assisting the Executive Committee

The Executive Committee has established the following committees to assist in the performance of its duties.

Risk Management Committee (“RMC”)

The key purpose of the BNY Mellon SA/NV Risk Management Committee (“RMC”) is to provide oversight of the risk management process for the underlying businesses, subsidiary and branches, to ensure that risks are identified, monitored and reported and to ensure that appropriate actions and activities are in place to manage the identified risks. The RMC also plays a central role in ensuring that material change that has the potential to affect the BNY Mellon SA/NV is identified in a timely manner and managed in an appropriate fashion.

The aim of the RMC is to establish and maintain a capable, effective forward looking risk organization that is well placed to identify and manage emerging risks for the legal entity including its branches and subsidiary. The RMC provides risk-based challenge to the Business (1st line of defense) establishes and maintains a risk culture, advises the Executive Committee as second line of defense on risk matters.

The Committee is responsible for ensuring that risk and compliance activities undertaken by BNY Mellon SA/NV and its underlying branches and subsidiary and businesses are executed in accordance with internal policies and all relevant regulations.

The Committee is assisted by the BNYM SA/NV Treasury Risk Committee (TRC). This committee has the purpose to review, assess and approve results and changes to the

methodology and assumptions, including but not limited to internal liquidity stress testing and IRRBB metrics, used in activities related to Asset & Liability and Balance Sheet Management for BNYM SA/NV on a consolidated level. The BNYM SA/NV TRC serves an important oversight role and as such is second line driven as opposed to the first line driven BNYM SA/NV ALCO.

Capital and Stress Testing Committee (“CSTC”)

The purpose of the CSTC is to ensure adequate governance and understanding of, and ownership for the processes and documentation pertaining to BNY Mellon SA/NV’s capital requirements (economic, regulatory, adequacy and allocation), risk economic capital model methodologies and stress testing. This is achieved in accordance, where applicable, with the ICAAP governance, BNY Mellon SA/NV Stress Testing policies and Framework whilst taking into consideration the Group’s over-arching capital, profit and strategic plans.

The CSTC is an empowered decision making body under authority delegated by BNY Mellon SA/NV Executive Committee and subject to corporate policy, legislation and external regulation.

Asset and Liability Committee (“ALCO”)

The BNYM SA/NV ALCO is responsible for overseeing the asset and liability management activities on the balance sheet of BNY Mellon SA/NV and its branches and subsidiary, and for ensuring compliance with all liquidity, interest rate risk and capital related regulatory requirements.

Business Acceptance Committees (BAC)

ABAC is responsible for the acceptance, oversight and guidance of new and existing businesses and clients for each of the following business lines for all BNY Mellon legal entities across EMEA: Asset Servicing & AIS, Corporate Trust, Depository Receipt, Markets, and Broker-Dealer & Advisory Services.

BNY Mellon SA/NV representatives, selected by the ExCo for their expertise, sit at BACs when BNY Mellon SA/NV deals have to be approved.

Credit Risk Oversight Committee (“CROC”)

The key purpose of the CROC is to oversee all forms of credit risk, to oversee controls of credit risk associated with BNY Mellon SA/NV banking business and to ensure compliance with BNY Mellon SA/NV credit policies. The activities of the CROC are reported to the Executive Committee as well as to the Risk Committee of the Board where relevant.

Technology and Information Risk Committee (TIRC)

The key purpose of the TIRC is to provide oversight of the Technology risks supported by the BNY Mellon SA/NV head office and its branches, to ensure that Technology risks are identified, monitored and reported and to ensure that appropriate actions and activities are in place to manage the identified risks. The Committee also plays a central role in ensuring that any material change that has the potential to affect the BNY Mellon SA/NV is identified in a timely manner and managed in an appropriate fashion.

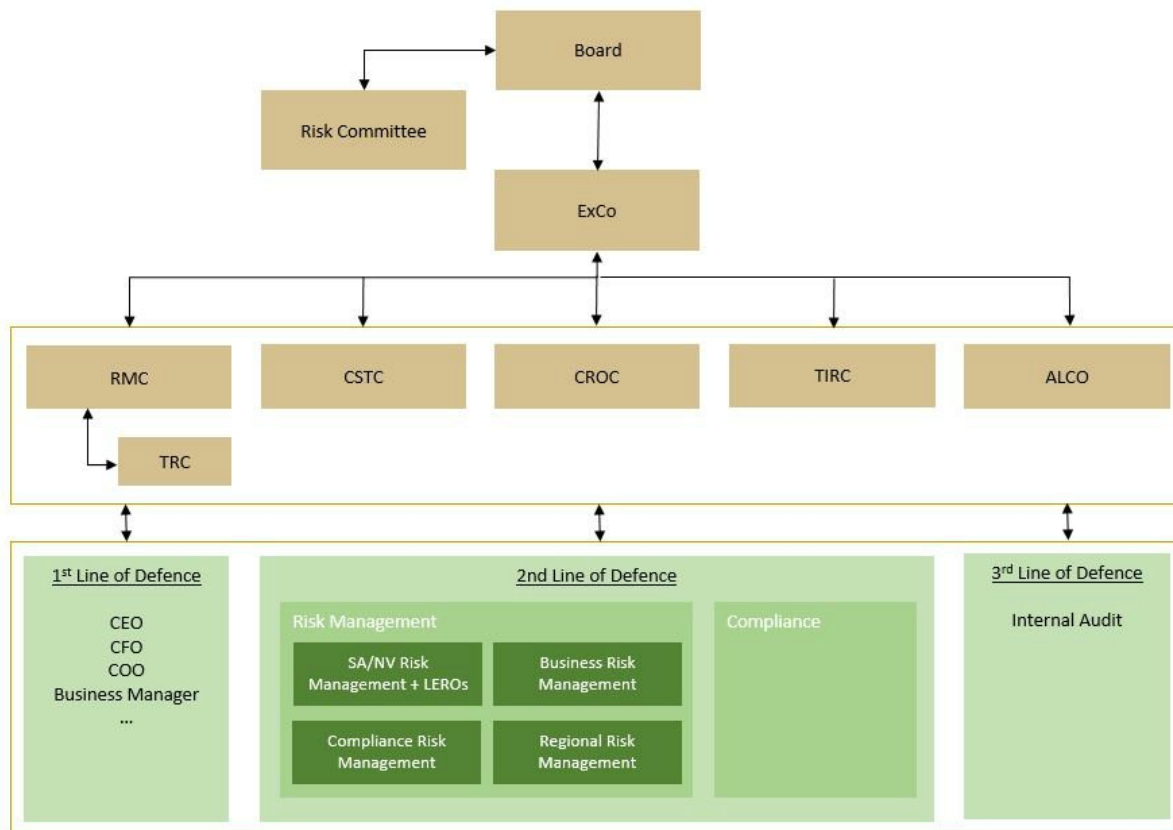
The aim of the Committee is to establish and maintain a capable, effective forward looking Technology risk organisation that is well placed to identify and manage emerging risks for the BNY Mellon SA/NV including its branches. The Committee provides risk-based challenge to the

Technology 1st line of defence, establishes and maintains a risk culture, and advises and escalates to the BNY Mellon SA/NV ExCo on risk matters.

The Committee is responsible for ensuring that Technology related risk and compliance activities undertaken by the BNY Mellon SA/NV ExCo including its branches and service providers are executed in accordance with risk appetite, policies and regulations.

28.1.3. Description of the Risk Management Framework

The risk management function monitors and identifies emerging risks with a forward looking approach. It provides risk management information to the BNY Mellon SA/NV Board and governance committees, and contributes to a “no-surprise” risk culture. It aligns closely with Compliance (2LOD) and Internal Audit (3LOD) plus Finance and Treasury (as 1LOD control functions). It independently educates staff, promotes risk awareness and continually makes improvements, whilst monitoring progress against defined success criteria for improving the effectiveness of the risk function.



* This chart focuses on the internal risk governance implemented in the European bank.

A designated (Branch) Risk Manager oversees each one of the seven BNYM SA/NV Branches, the Brussels Head Office and the KVG subsidiary.

The different Branch/Subsidiary Managers are invited to the monthly RMC and have the possibility to escalate any item they deem material.

28.1.4. Risk Assessment Methodology and Reporting Systems

Risk identification and monitoring occur in the business (operational areas) and within focused risk departments. Several processes are in place in order to ensure that the risks are correctly

and timely identified and monitored. Monitoring and controlling risks is primarily performed based on limits established by BNY Mellon SA/NV. These limits reflect the business strategy and market environment of BNY Mellon SA/NV as well as the level of risk that BNY Mellon SA/NV is willing to accept. In addition, BNY Mellon SA/NV's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the Risk Management Committee, the Executive Committee and the Board of Directors.

Risk identification and reporting is made using a series of tools and information systems. Each risk type is assessed and reported by risk experts to BNY Mellon SA/NV RMC.

BNY Mellon SA/NV benefits from multiple data gathering, risk monitoring and escalation flows. BNY Mellon SA/NV generally does not build its own risk infrastructure, data aggregation and reporting tools. In that sense, all the tools used by the risk experts are Corporate tools, of which the building and maintenance is framed by policies and Service Level Agreements. One notable exception is the large exposure tool (Concentration Risk System - CRS). This tool was developed by BNY Mellon SA/NV, and is tailored to the needs of BNY Mellon SA/NV.

28.1.5. Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP")

BNY Mellon SA/NV monitors its capital adequacy in accordance with Basel Framework on the basis of Pillar 1 requirements as well as Pillar 2 (Economic Capital).

Pillar 1 capital requirement is calculated according to the Basel standardized approach for credit, market and operational risks, and for credit value adjustment. The standard formula is based on weighting factors applied to the balance sheet and profit and loss components.

Pillar 2 capital requirement is based on an internal risk assessment of the components of the balance sheet and of the business activities; it uses BNY Mellon SA/NV methodologies (most being BNY Mellon methodologies) which follow an approval process including independent validation by BNY Mellon's model validation team. These methodologies are approved by BNY Mellon SA/NV Capital and Stress Testing Committee and by BNY Mellon SA/NV Board of Directors during the annual ICAAP approval. BNY Mellon SA/NV also conducts stress tests in order to assess the resilience of the capital base in the future. This provides an avenue for micro- and macro-economic scenarios, new activities or strategic plans to be assessed from a capital perspective.

The ILAAP process reflects a strong liquidity risk management culture and efficient governance regime in place within the firm. Throughout the ILAAP preparation cycle the content, findings and conclusions set out in this paper have been reviewed and challenged by the relevant stakeholders and governance committees.

The ILAAP is a living document updated on a regular basis and, no less frequently than annually. It includes liquidity stress testing proving the resilience of the firm in case of market or idiosyncratic liquidity events.

28.1.6. Risk Mitigation

As part of its overall risk management and in addition to the different mitigation measures implemented within the different risk categories, BNY Mellon SA/NV uses derivatives and other instruments to manage exposures resulting from changes in foreign exchange rates. This use

is limited to the economical coverage of the liquidity invested in part of its debt instruments portfolio.

28.2. Credit Risk

28.2.1. Source of Risks

Credit risk is the risk arising from obligor or counterparty failure to pay an extension of credit whether contractual or otherwise. Credit risk is found in all activities in which settlement or repayment depends on counterparty, issuer, or borrower performance. It exists any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet..

Because of its business model providing custodial services to the global finance community, BNY Mellon SA/NV assumes less balance sheet and traditional credit risk than many other banks. However, these businesses do create significant intraday credit risk that can originate from different sources.

BNY Mellon SA/NV credit exposures arise primarily through the following activities:

- BNY Mellon SA/NV provides significant intraday credit facilities to clients in order to settle transactions settling in a wide variety of global markets. These facilities are generally secured, unadvised and uncommitted. Although end of day balances (overdrafts) are relatively small, intraday exposures can be extensive, albeit spread across a very wide portfolio of clients.
- Client overdrafts, resulting from unfunded intraday activity (trade purchases, FX and payment activity, etc).
- Placement to central banks and money market: credit risk assumed by BNY Mellon SA/NV in placing funds with banks for a fixed term or overnight. This may be by way of cash placement or through the purchase of certificates of deposits issued by these banks.
- Investment in securities (government bonds, corporate bonds and covered bonds): BNY Mellon SA/NV has a large securities portfolio.
- Intercompany exposure (placements, Netting Agreement use and receivables).
- Derivatives in the banking book: FX swaps used to manage liquidity and FX swaps coming from the FX client activity.

28.2.2. Credit Risk Management Framework

The Credit Risk Management Framework (CRMF) defines roles and responsibilities using the three lines of defense, as defined in section 28.1. The CRMF within BNY Mellon SA/NV relies on awareness, well defined policies, procedures and reporting, a clear governance structure and suitable tools for reporting and monitoring; these are used to effectively identify, manage, mitigate, monitor and report the risks in an organized way to the appropriate governance body. A series of new credit risk procedures at BNY Mellon Group level (applicable to SA/NV as well) have been developed to enhance the execution of the CRMF. The procedures define sustainable baseline standards to be applied across all business level operational risk functions including BNY Mellon SA/NV, and focus on:

- Clearly defined First and Second Line of Defense roles and responsibilities
- Escalation Requirements
- Evidence of Oversight and Challenge Activities

28.2.3. Credit Risk Monitoring and Control

Credit risk is managed and monitored by several teams globally, including officers in Brussels and is reported to the Credit Risk Oversight Committee (CROC), a sub-committee of BNY Mellon SA/NV Executive Committee.

Monitoring and control is conducted via a number of systems to ensure that approved exposure levels are not exceeded, or are pre-approved by an appropriate Credit Officer in the light of individual circumstances. Post event monitoring is conducted by both client service areas and the credit risk function. Each counterparty is associated with an internal rating defining its credit quality. In that respect, Group standards are applied uniformly within the Group. Nostros accounts are maintained at the minimum possible level and within large exposures limits commensurate with smooth operation of client and own fund's needs. The banks used are all major well rated banks in the relevant country. Regarding intraday overdrafts, limits are set for each client as a percentage of a client's assets under custody (subject to certain maximum levels); all cash payments are checked against this limit on a real-time basis. Any excesses are referred to a credit officer for approval. Occasionally business requirements are such that a manual fixed limit is required. In these situations, specific credit approval is provided by the credit risk manager. Again all cash payments are checked against this limit, prior to payment. These arrangements allow clients to access proceeds of sales, or other expected funds, even though in many markets the proceeds are not formally received until late in the day.

Formal overdraft facilities have been agreed for selected clients where business and credit risk evaluations are satisfactory. Leverage is required to be moderate. The portfolio composition is required to be adequately diversified and of sufficient quality to mirror credit approval by a dedicated credit risk specialist.

Derivative financial instruments

BNY Mellon SA/NV maintains strict control limits on derivative positions by amount and maturity, and is only engaged for economic hedging purposes. Credit risk arising from derivative financial instruments is, at any time, limited to the positive current fair values of these financial instruments (plus a regulatory "add-on" reflecting the future credit risk exposure of these derivatives).

Collateral or other security is usual practice to cover the credit risk exposure on these instruments, except where BNY Mellon SA/NV requires margin deposits from counterparties. Settlement risk arises where a payment in cash, securities or equities is made in the expectation of a corresponding similar receipt. Daily settlement limits are established for each counterparty to cover the aggregate settlement risk exposures resulting from the daily market transactions of BNY Mellon SA/NV.

The exposure value of derivatives as of 31 December 2019 is €158 Mio (2018: €295 Mio).

Offsetting financial assets and financial liabilities

BNY Mellon SA/NV does not offset any financial assets and financial liabilities except for intragroup exposures where an MNA exists. The disclosures set out in the table below include financial assets and financial liabilities that are subject to legal agreements similar to enforceable master netting arrangements, which cover similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing

and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Financial assets and liabilities subject to offsetting, enforceable master netting agreements for the year 2019 are presented in the following table:

| | Gross amounts of recognized financial instruments | Gross amounts of recognized financial liabilities/assets offset in the statement of financial position | Net amounts of financial instruments presented in the statement of financial position | Related amounts of financial instruments not offset in the statement of financial position |
|---------------------------------|---|--|---|--|
| | In € '000 | In € '000 | In € '000 | In € '000 |
| Financial assets | | | | |
| Loans and advances to customers | 2,411,962 | 2,410,999 | 963 | 963 |
| Financial liabilities | | | | |
| Deposits | 3,114,497 | 2,410,999 | 703,498 | 963 |

In prior years BNY Mellon SA/NV's activities of sale and repurchase, and reverse sale and repurchase transactions, and securities borrowing and lending were covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements. As of 31 December 2019 and 2018, no such transactions existed within BNY Mellon SA/NV.

BNY Mellon SA/NV received and accepted collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements.

Such collateral is subject to the standard industry terms of ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

At 31 December 2019 BNY Mellon SA/NV had no exposures subject to the above agreements.

28.2.4. Collateral and Other Credit Enhancements

BNY Mellon SA/NV can receive collateral from a counterparty which can include, guarantees, cash and both equity and debt securities. When a right of pledge exists, BNY Mellon SA/NV has the ability to call on this collateral in the event of a default by the counterparty.

Collateral amounts are adjusted on a daily basis to reflect market activity to ensure they continue to achieve an appropriate mitigation of risk value. Securities are marked-to-market daily and haircuts are applied to protect BNY Mellon SA/NV in the event of the value of the collateral suddenly reducing in value due to adverse market conditions. Customer agreements can include requirements for the provision of additional collateral should valuations decline.

28.2.5. Risk Concentrations: Maximum Exposure to Credit 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. In addition, industry, country and collateral concentration bear additional credit risk as the systemic credit quality issue in a sector will create losses for the whole sector.

The risk of credit concentrations is controlled and managed according to client/counterparty as opposed to industry. Country limits (in particular for the securities portfolio) are approved by the CROC.

Under European and Belgian bank regulations, all large external individual exposures have to stay below a 25% threshold of their own funds. Shadow banking exposure follows the same rule.

The largest exposure is to The Bank of New York Mellon and is spread across multiple branches and locations which provide some mitigation in the case of the default or rating downgrade of a related party. The remaining placements (including central bank placements) are diversified across a number of banks and geographic locations.

In March 2014, a Master Netting Agreement (MNA) was signed between BNY Mellon SA/NV and BNY Mellon. This agreement has a significant positive impact on the credit risk capital requirement and thereby on BNY Mellon SA/NV solvency ratio. An additional MNA was signed with BNYM International Limited in July 2015. These MNA were still in place as of 31/12/2019.

In addition, an Unfunded Credit Risk Mitigation Agreement (UCRMA) is used for day-to-day management of the risk but is not taken into account for regulatory reporting purposes at the end of the reporting period. The UCRMA is not taken into account for statutory and consolidation reporting.

BNY Mellon SA/NV has carried out extensive work in connection with the remediation of large exposure and concentration risk concerns. The Concentration Risk System has been implemented which enables BNY Mellon SA/NV to manage (counterparty and country) Credit Concentration Risk on a day-to-day basis, addressing the requirements of the business and the risk function, and to report Large Exposures to the NBB in line with applicable Large Exposures regulatory reporting requirements. This reporting tool has been in place since July 2014.

There was no regulatory breach in 2019, neither towards external counterparties nor towards intergroup exposures.

The following table shows the maximum exposure to credit risk for the financial assets and financial liabilities, by geography and by industry before the effect of mitigation through the use of master netting and the Unfunded Credit Risk Mitigation Agreement. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Overview of maximum credit risk exposure

| | Maximum risk position | | Collateral | |
|---|-----------------------|------------|------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| | In € '000 | In € '000 | In € '000 | In € '000 |
| Cash and cash balances with central banks | 10,754,991 | 6,238,261 | — | — |
| Derivative financial instruments (asset side) | 158,006 | 295,091 | — | — |
| Investment securities (Note 26.2) | 12,696,318 | 12,517,744 | 1,851,757 | 801,836 |
| Loans and advances to customers (note 26.3) | 8,834,550 | 6,535,177 | 209,183 | 230,568 |
| Derivative financial instruments (liability side) | 162,565 | 304,085 | — | — |
| Financial liabilities measured at amortized cost | 28,986,413 | 22,298,108 | — | — |
| <i>Deposits</i> | 28,588,304 | 21,939,353 | — | — |
| <i>Subordinated liabilities</i> | 358,124 | 358,755 | — | — |
| <i>Other financial liabilities</i> | 39,985 | — | — | — |

| | Maximum credit risk exposure by region, carrying values: | | | | 2019 | 2018 |
|---|--|------------------|-------------------|------------------|-------------------|-------------------|
| | Africa | Americas | Europe | Asia Pacific | In € '000 | In € '000 |
| FINANCIAL ASSETS | | | | | | |
| Cash and cash balances with central banks | 23 | — | 10,754,968 | — | 10,754,991 | 6,238,261 |
| Derivative financial instruments | 0 | 4,092 | 152,205 | 1,709 | 158,006 | 295,091 |
| Investment securities | — | 3,423,238 | 8,448,006 | 825,073 | 12,696,318 | 12,517,744 |
| Loans and advances to customers | 194,194 | 1,546,729 | 3,392,338 | 3,701,289 | 8,834,550 | 6,535,177 |
| TOTAL FINANCIAL ASSETS | 194,217 | 4,974,059 | 22,747,517 | 4,528,071 | 32,443,864 | 25,586,274 |
| FINANCIAL LIABILITIES | | | | | | |
| Derivative financial instruments | 0 | 7,915 | 154,567 | 83 | 162,565 | 304,085 |
| Deposits | 69,994 | 2,954,390 | 24,962,801 | 601,120 | 28,588,304 | 21,939,353 |
| Subordinated liabilities | 0 | 0 | 358,124 | 0 | 358,124 | 358,755 |
| Other financial liabilities | 0 | 0 | 39,985 | 0 | 39,985 | 0 |
| TOTAL FINANCIAL LIABILITIES | 69,994 | 2,962,305 | 25,515,477 | 601,202 | 29,148,978 | 22,602,193 |

| | Maximum credit risk exposure by industry, carrying value: | | | | 2019 | 2018 |
|---|---|--------------------|-----------------------------|---------------------------|-------------------|-------------------|
| | Credit institutions | General Government | Other Financial institution | Non-Financial institution | In € '000 | In € '000 |
| FINANCIAL ASSETS | | | | | | |
| Cash and cash balances with central banks | 10,754,991 | — | — | — | 10,754,991 | 6,238,261 |
| Derivative financial instruments | 107,771 | 1 | 49,810 | 424 | 158,006 | 295,091 |
| Investment securities | 6,329,799 | 5,634,729 | 18,299 | 713,490 | 12,696,318 | 12,517,744 |
| Loans and advances to customers | 8,558,247 | 18,165 | 258,138 | — | 8,834,550 | 6,535,177 |
| TOTAL FINANCIAL ASSETS | 25,750,807 | 5,652,895 | 326,248 | 713,914 | 32,443,864 | 25,586,274 |
| FINANCIAL LIABILITIES | | | | | | |
| Derivative financial instruments | 91,508 | — | 70,291 | 766 | 162,565 | 304,085 |
| Deposits | 8,200,035 | 39,846 | 20,344,016 | 4,406 | 28,588,304 | 21,939,353 |
| Subordinated liabilities | — | — | 358,124 | — | 358,124 | 358,755 |
| Other financial liabilities | 39,984 | — | 1 | — | 39,985 | — |
| TOTAL FINANCIAL LIABILITIES | 8,331,527 | 39,846 | 20,772,433 | 5,172 | 29,148,978 | 22,602,193 |

28.2.6. Monitoring Sovereign Risks

Risk Management of BNY Mellon SA/NV has actively managed through events in the macro-economy, unstable political situations in regions, acts of nature and threats of a regional debt contagion, events impacting employees, clients and business operations. Stress tests are also conducted as needed. Thus far, no direct credit losses have been recorded in BNY Mellon SA/NV from these events. The split per country is presented further down.

Overview of exposure to sovereign debt at year-end 2019 and 2018, carrying value (in € 000):

| Country | Held-for-trading | Balances with Central Banks | Investment securities | | Loans and advances | 2019 | 2018 |
|----------------|------------------|-----------------------------|-----------------------|----------------|--------------------|-------------------|-------------------|
| | | | FVOCI | Amortised Cost | | | |
| Belgium | — | 5,243,381 | 71,233 | 10,883 | — | 5,325,497 | 2,385,712 |
| Germany | — | 4,573,155 | 804,585 | — | — | 5,377,740 | 4,450,053 |
| Spain | — | — | 458,018 | — | — | 458,018 | 438,132 |
| France | — | — | 683,858 | 137,875 | — | 821,732 | 1,296,977 |
| United Kingdom | — | — | 207,165 | 29,779 | — | 236,944 | 795,715 |
| Ireland | 20 | 265,131 | 90,964 | — | 129 | 356,245 | 131,148 |
| Italy | — | 46,704 | 620,120 | — | — | 666,825 | 701,927 |
| Luxembourg | — | 442,617 | 25,258 | — | — | 467,875 | 422,729 |
| Netherlands | — | 180,688 | 680,784 | 52,729 | — | 914,202 | 817,045 |
| Canada | — | — | 63,276 | — | — | 63,276 | — |
| Japan | — | — | 51,732 | — | — | 51,732 | — |
| United States | — | — | 1,188,142 | — | — | 1,188,142 | 2,154,542 |
| Finland | — | — | 31,177 | — | 18,036 | 49,212 | — |
| Other | 1,489 | 3,313 | 427,152 | — | — | 431,954 | 34,054 |
| TOTAL | 1,509 | 10,754,991 | 5,403,464 | 231,265 | 18,165 | 16,409,394 | 13,628,034 |

28.2.7. Credit Quality by Class of Financial Assets

Credit is approved through the credit risk function of BNY Mellon, within the risk appetite tolerances of BNY Mellon SA/NV. All counterparties (clients and banks) are assessed and allocated a credit rating in accordance with the BNY Mellon internal rating system.

BNY Mellon's internal methodology for borrower ratings is based on external ratings and a dedicated internal assessment. The internal rating scale ranges from 1 to 18 and is mapped to internally estimated probabilities of default. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on BNY Mellon SA/NV's internal credit rating system. This system can be linked to more common rating systems available on the market. The amounts represent the credit risk exposures as calculated according to regulatory rules. There are no impaired financial assets recognized for BNY Mellon SA/NV in 2019 (2018: € nil).

| Internal BNY Mellon rating | S&P' equivalent grades | Moody's equivalent grades | Held-for- trading | Balances with Central Banks | Investment securities* | | Loans and receivables | 2019 | 2018 |
|-------------------------------------|------------------------------|---------------------------------|----------------------|--------------------------------------|---------------------------|--------------------|--------------------------|---------------|---------------|
| | | | | | FVOCI | Amortise d Cost | | | |
| | | | | | | | | € Mio | € Mio |
| 1-2 | AAA/AA+ | Aaa/Aa1 | 5 | 5,199 | 5,940 | 77 | 23 | 11,244 | 12,092 |
| 3-6 | AA/A | Aa2/ A2 | 139 | 5,243 | 4,798 | 249 | 7,184 | 17,614 | 10,506 |
| 7-9 | A-/BBB | A3 /Baa2 | 6 | 265 | 828 | 90 | 1,075 | 2,264 | 2,050 |
| 10-13 | BBB-/BB- | Baa3/Ba3 | 8 | 47 | 532 | 183 | 464 | 1,234 | 874 |
| 14-16 | B+/B- | B1/B3 | — | — | — | — | 84 | 84 | 36 |
| 17 | CCC+ | Caa1 | — | — | — | — | — | — | — |
| NR | | | — | — | — | — | 4 | 4 | 28 |
| Total | | | 158 | 10,755 | 12,099 | 598 | 8,835 | 32,444 | 25,586 |

*Investment securities are rated based on the lower of the two external credit ratings.

It is BNY Mellon SA/NV's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products.

The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk in accordance with BNY Mellon SA/NV's rating policy. The risk ratings are assessed and updated regularly.

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments (2019) split by Stage 1, Stage 2 and Stage 3. Explanations on the stages classification is included in Note 1.6.8.1.

| | Stage 1 In € '000 | Stage 2 In € '000 | Stage 3 In € '000 | Total In € '000 |
|--|----------------------|----------------------|----------------------|--------------------|
| Cash with central banks and Loans and advances to customers at amortised cost | | | | |
| Grades 1-10: Investment grade | 19,236,050 | 125,475 | — | 19,361,525 |
| Grades 11-14: Non investment grade | 189,522 | 2,088 | — | 191,610 |
| Grade 15-16: Criticised asset | 25,390 | 11,346 | — | 36,736 |
| Grades 17-18: Default | — | — | — | — |
| | 19,450,962 | 138,909 | — | 19,589,871 |
| Loss allowance | 222 | 109 | — | 331 |
| Carrying amount | 19,450,740 | 138,800 | — | 19,589,540 |
| Debt investment securities at amortised cost | | | | |
| Grades 1-10: Investment grade | 597,787 | — | — | 597,787 |
| Grades 11-14: Non investment grade | — | — | — | — |
| Grade 15-16: Criticised asset | — | — | — | — |
| Grades 17-18: Default | — | — | — | — |
| | 597,787 | — | — | 597,787 |
| Loss allowance | 10 | — | — | 10 |
| Carrying amount | 597,777 | — | — | 597,777 |
| Debt investment securities carried at FVOCI | | | | |
| Grades 1-10: Investment grade | 12,098,678 | — | — | 12,098,678 |
| Grades 11-14: Non investment grade | — | — | — | — |
| Grade 15-16: Criticised asset | — | — | — | — |
| Grades 17-18: Default | — | — | — | — |
| | 12,098,678 | — | — | 12,098,678 |
| Loss allowance | 137 | — | — | 137 |
| Carrying amount | 12,098,541 | — | — | 12,098,541 |

28.2.8. Impairment Assessment - Amounts arising from expected credit loss("ECL")

For accounting purposes, the measurement of impairment loss allowances is based on an expected credit loss ("ECL") accounting model. The definition of default is a central concept for ECL.

Definition of default

Under IFRS 9, BNY Mellon SA/NV will consider a financial asset to be in default when either or both of the following conditions are met:

- BNY Mellon SA/NV determines that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries, in full, without recourse by BNY Mellon SA/NV to actions such as realizing collateral (if held).

- The obligor is past due more than 90 days on any material credit obligation to BNY Mellon SA/NV, its ultimate parent undertaking or any subsidiary of its parent undertaking. The assessment of number of days past due will begin from the date of first missed payment. The trigger to count past due days for overdrafts is when the legal obligation for mandatory payment has been established.

Significant increase in credit risk

Internal credit rating-based approach is used for wholesale exposures

BNY Mellon SA/NV allocates to exposures a credit risk grade that is based on experienced credit judgment and a variety of data that is predictive of the risk of default. BNY Mellon SA/NV will use its 18 point internal credit rating scale to determine a significant increase in credit risk for wholesale exposures (cash and due from banks, interest bearing deposits, loans including overdrafts and unfunded commitments and letters of credit):

- 1-10 Investment grade
- 15-16 Criticized asset rating
- 17-18 Default rating

Credit risk grades are defined and calibrated such that the risk of default increases exponentially as the credit rating deteriorates. A significant increase in credit risk and transfer to stage two occurs for such exposures when there has been a four notch downgrade since initial recognition of the exposure. As a backstop, an exposure that is 30 days past due (DPD) is considered to have experienced a significant increase in credit risk. Additionally, exposures with a criticized asset rating (15-16) will be deemed to have suffered a significant increase in credit risk compared with the maximum initial credit risk at recognition. 'Recovery' from a significant increase in credit risk occurs when an exposure's credit rating improves by two notches from the rating when it initially was moved into stage two, subject to being less than four grades below initial recognition date rating and not having a criticized asset rating. A minimum cure period of six months is applied even in the rare occasion that a two notch ratings upgrade occurs within a six month time period.

Low credit risk exception is applied to investment securities portfolio. IFRS 9 permits an entity to assume that credit risk has not increased significantly since initial recognition if the credit risk on the exposure is low at the reporting date. BNY Mellon SA/NV will apply this approach to investment securities that have an internal rating of 10 or above (investment grade).

Inputs into measurement of ECL

The key inputs into the measurement of ECL are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

The measurement is based on Point-in-Time (PiT) parameters. BNY Mellon will leverage BNY Mellon SA/NV statistical models for derivation of these key parameters, which are derived using macroeconomic variables from the forward-looking scenarios as described below. BNY Mellon SA/NV measures ECL considering the risk of default over the maximum contractual period for which it is exposed to credit risk or, where no contractual period is stated, the period over which BNY Mellon SA/NV could liquidate or otherwise limit its exposure. The models used follow BNY Mellon policies regarding Model Risk Management.

The expected credit loss at year ending 31 December 2019 is €0.5 Mio.

Forward-looking information

BNY Mellon SA/NV incorporates forward-looking information into its determination of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL.

Internal credit ratings used in determining significant increase in credit risk for wholesale exposures take into account forward-looking information specific to the counterparty.

ECLs are calculated based on the probability-weighted outcome of multiple economic scenarios. Scenarios are provided by an external provider and enhanced using an in-house model to derive all variables needed by the risk models. Three scenarios are used: Baseline, Optimistic, and Pessimistic. Those models incorporate reversion to long-term means. The weight of each scenario is determined by calibrating the three scenarios using a benchmark scenario. The weighting is then reviewed by an Economic Scenario Oversight Group.

The following table shows reconciliation of the opening balance to the closing balance of the loss allowance by class of financial instrument. All exposures are in Stage 1, except for the ones mentioned in Stage 2 explicitly. No exposures in Stage 3 existed in 2019.

| | Loans and advances | of which Stage 2 | Investment securities | Total | of which Individual |
|--------------------------------|-----------------------|---------------------|--------------------------|-------|------------------------|
| At 1 January | 847 | 629 | 159 | 1,006 | 1,006 |
| Increase due to origination | 89 | 7 | 32 | 122 | 122 |
| Decrease due to de-recognition | (134) | (86) | (31) | (165) | (165) |
| Change in credit risk | (481) | (448) | (14) | (495) | (495) |
| Net re-measurement | — | — | — | — | — |
| Foreign exchange and other | 8 | 7 | 1 | 9 | 9 |
| At 31 December | 331 | 109 | 147 | 478 | 478 |

A loan is considered non-performing with regard to a particular obligor when the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries, in full, without recourse by BNYM to actions such as realizing collateral, or the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

There are no past due on Investment Securities and Cash and Cash Balances with Central Banks.

Individually assessed allowances

BNY Mellon SA/NV determines the allowances appropriate for each significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

BNY Mellon SA/NV has recorded an individually assessed allowance of €0.5 Mio in 2019 (2018: € 1 Mio).

BNY Mellon SA/NV did not make any collective assessment for impairment, as its remaining balances of its loans and advances, outside the ones determined to be the individually significant, were assessed to be cumulatively immaterial.

BNY Mellon SA/NV has not recorded any allowance on a collective basis in 2019 (2018: € nil).

28.2.9. Commitments and Guarantees

BNY Mellon SA/NV does not enter into irrevocable commitments and contingent liabilities for external customers. The off-balance sheet items of BNY Mellon SA/NV contain mainly: lease car or rental commitments and state guarantees on debt securities. These are not qualified as loan commitments. For more details please refer to note 26.

BNY Mellon SA/NV has entered into an agreement under which it will provide financial support to enable BNY Mellon Service Kapitalanlage-Gesellschaft mbH to meet any tax payment obligation or civil law claims arising from cum-ex trades.

28.2.10 Regulatory and Economic Capital Requirements

Capital requirement for credit risk Pillar 2 (covering credit risk and intraday credit risk) resulted in an (unaudited) amount of € 297.3 Mio (2018: € 278.7 Mio), versus the Pillar 1 calculation of €263.2Mio (2018: €208.8 Mio).

28.3. Liquidity Risk and Funding Management

28.3.1. Source of Risks

BNY Mellon SA/NV defines Liquidity as the ability to access funding, convert assets to cash quickly and efficiently, or to roll over or issue new debt (where applicable), especially during periods of market stress. Liquidity risk includes the inability to access funding sources or manage fluctuations in funding levels.

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

Execution of transactions for day-to-day liquidity management is performed by International Treasury Money Market Desk, based in London who operate under the documented SLD. Global Cash Operations team, primarily based in Manchester, provides back office support with respect to reporting nostro and cash positions. Finance team provides information on capital and liquidity positions to International Treasury to ensure the management of capital and liquidity ratios within internal risk appetite and regulatory limits.

BNY Mellon SA/NV aims to be self-sufficient for liquidity and seeks to maintain a liquid balance sheet at all times. BNY Mellon SA/NV's balance sheet is liability driven primarily due to deposits generated through its asset servicing and custody business activities. Liabilities and sources of funds consist mainly of third party client deposits and intercompany deposits. Client deposit balances are operational in nature and exhibit a degree of "stickiness" from a liquidity perspective.

BNY Mellon SA/NV maintains ample liquidity for day-to-day changes in deposit funding. Apart from operational client overdrafts, BNY Mellon SA/NV does not extend term loans to clients and therefore funding assets is not a significant use of liquidity. While sizeable overdrafts can periodically appear on BNY Mellon SA/NV's balance sheet, large deposits offset these amounts. Liquidity from customer and intercompany deposits on the balance sheet is deployed in the following ways:

- Placed overnight with national central banks through the Head office or branches
- Used to fund the securities portfolio, primarily comprising of High Quality Liquidity Assets (HQLA)
- Placed short term in the interbank market
- Used to fund overdrafts, which are mainly operational in nature and short-term
- Placed short term with other BNY Mellon entities (intercompany placements)
- Other currencies may be placed directly in the interbank market or left on Nostro accounts.

28.3.2. Liquidity Risk Management Framework

Responsibility for strategy, policies and monitoring

BNY Mellon SA/NV has in place a governance structure commensurate with the range of its activities and its liquidity profile. Liquidity risk is managed and monitored from a legal entity and functional perspective through various committees and forums.

The goal of BNY Mellon SA/NV's liquidity management is to ensure that all liquidity risks are defined, understood, and effectively managed through well-designed policies and controls. In this context, BNY Mellon SA/NV has established a robust liquidity risk management framework that is fully integrated into BNY Mellon risk management processes. The liquidity risk management framework, is prepared in accordance with the guidelines set forth by the regulators, and encompasses the unique structure and characteristics of BNY Mellon SA/NV.

The primary objective of the liquidity risk management framework is to ensure that, with a high degree of confidence, BNY Mellon SA/NV is in a position to meet its day-to-day liquidity obligations and withstand a period of liquidity stress, the source of which could be idiosyncratic, market-wide or both. As the framework is a global approach, the same guidelines apply to BNY Mellon SA/NV as to other BNY Mellon entities.

BNY Mellon SA/NV has a liquidity risk management process in existence which meets the requirements of numerous stakeholders including BNY Mellon SA/NV ExCo, Treasury, Risk, Finance, Belgium ALCO and the Board. BNY Mellon SA/NV has in place three lines of defense which monitor and control liquidity risk:

- **First Line of Defense:** Corporate Treasury, which includes International Treasury team and Portfolio Management Group, acts as front office which carries out day to day execution and management of BNY Mellon SA/NV's liquidity and balance sheet management activities inclusive of liquidity, capital, collateral and interest rate risk management. BNY Mellon SA/NV's middle and back office teams also contribute to the first line of defense.
- **Second Line of Defense:** includes risk management function and compliance function, providing an independent oversight to the market and liquidity risks undertaken by BNY Mellon SA/NV.
- **Third Line of Defense:** Internal audit function.

The liquidity risk management process is kept under continual review and there is a regime of continual improvement in place to ensure that control remains effective at all times.

Stress testing

Liquidity stress testing is conducted at the BNY Mellon SA/NV consolidated level. The purpose of liquidity stress testing is to examine BNY Mellon SA/NV's ability to survive a range of plausible but extreme increasingly severe liquidity stress scenarios and adverse funding conditions in line with Art. 98 - 100 of the EU Directive 2013/36/EU as well as recommendations laid down in EBA/GL/2014/13 Guidelines on common procedures and methodologies for the supervisory review and evaluation process (EBA SREP - Guideline, Titles 8 and 9).

BNY Mellon SA/NV prepares liquidity stress testing under a currency specific model with results reviewed and approved by the Liquidity Stress Test Oversight Team and Belgium ALCO. The aim of the exercise is to identify areas of vulnerability, plus circumstances, factors that might cause the firm to fail from a liquidity stand point.

The following table details the assets /liabilities according to the remaining term to maturity (contractual maturity date):

| 2019 | Over night | On demand | Less than a week | Up till 3 months | 3 months 1 year | 1 year- 5 years | Over 5 years | Gross nominal inflow/ (outflow) | Book Value |
|---|------------|-------------------|------------------|------------------|------------------|------------------|------------------|---------------------------------|-------------------|
| | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 |
| Non derivative assets | | | | | | | | | |
| Cash and cash balances with central banks | — | 10,754,991 | — | — | — | — | — | 10,754,991 | 10,754,991 |
| Loans and advances to customers | — | 4,433,354 | 2,097,363 | 1,991,729 | 312,105 | — | — | 8,834,550 | 8,834,550 |
| Investment securities | — | — | 51,616 | 1,118,572 | 2,198,135 | 8,107,766 | 1,220,228 | 12,696,318 | 12,696,318 |
| | — | 15,188,344 | 2,148,978 | 3,110,301 | 2,510,239 | 8,107,766 | 1,220,228 | 32,285,858 | 32,285,858 |
| Non derivative liabilities | | | | | | | | | |
| | — | 27,811,889 | 223,686 | 7,320 | — | — | — | 28,042,895 | 28,042,894 |
| Deposits | — | 545,410 | — | — | — | — | — | 545,410 | 545,410 |
| Deposits from central banks | — | — | — | 15,182 | 15,017 | 120,466 | 711,962 | 862,627 | 358,124 |
| Subordinated liabilities | — | — | — | 2,435 | 7,371 | 23,158 | 8,035 | 40,999 | 39,985 |
| Other financial liabilities | — | — | — | — | — | — | — | — | — |
| | — | 28,357,299 | 223,686 | 24,937 | 22,388 | 143,624 | 719,997 | 29,491,931 | 28,986,413 |

| 2018 | Over night | On demand | Less than a week | Up till 3 months | 3 months 1 year | 1 year- 5 years | Over 5 years | Gross nominal inflow/ (outflow) | Book Value |
|---|------------|-------------------|------------------|------------------|------------------|------------------|------------------|---------------------------------|-------------------|
| | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 | In € '000 |
| Non derivative assets | | | | | | | | | |
| Cash and cash balances with central banks | — | 6,238,261 | — | — | — | — | — | 6,238,261 | 6,238,261 |
| Loans and advances to customers | — | 4,642,365 | 393,657 | 1,368,043 | 131,112 | — | — | 6,535,177 | 6,535,177 |
| Investment securities | — | — | — | 1,473,378 | 2,611,124 | 6,931,335 | 1,501,908 | 12,517,744 | 12,517,744 |
| | — | 10,880,626 | 393,657 | 2,841,421 | 2,742,235 | 6,931,335 | 1,501,908 | 25,291,183 | 25,291,183 |
| Non derivative liabilities | | | | | | | | | |
| Deposits | — | 21,289,523 | 64,372 | — | — | — | — | 21,353,895 | 21,353,895 |
| Deposits from central banks | — | 585,458 | — | — | — | — | — | 585,458 | 585,458 |
| Subordinated liabilities | — | — | — | 15,121 | 14,935 | 109,397 | 742,062 | 881,515 | 358,755 |
| Other financial liabilities | — | — | — | — | — | — | — | — | — |
| | — | 21,874,981 | 64,372 | 15,121 | 14,935 | 109,397 | 742,062 | 22,820,868 | 22,298,108 |

By the nature of its business, BNY Mellon SA/NV finds itself in very large positive liquidity position. The liability side consists mostly of the customer cash deposits with mostly very short term maturities held on the sight accounts and linked to their activities in the global securities markets.

On the asset side of the balance sheet, overdrafts occur on specific client accounts and are mainly of technical nature and very short duration. They do not influence in any meaningful way the overall liquidity position of BNY Mellon SA/NV.

28.4. Market Risk

28.4.1. Source of Risks

Market risk is defined as the risk arising from adverse change in financial markets due to factors such as prices, rates, implied volatilities, or correlations of market risk factors. Market risk factors include but are not limited to interest rates, foreign exchange rates, market liquidity, equity prices, credit spreads, pre-payment rates, commodity prices and issuer risk associated with the BNY Mellon SA/NV's trading and investment portfolios.

Market risk is a systemic risk. Movements in markets are beyond the control of BNY Mellon SA/NV. Market risk to BNY Mellon SA/NV is reviewed below in two contexts: impact on balance sheet and impact on revenues and consequently its profitability.

BNY Mellon SA/NV does not run a trading book. The Corporate Treasury FX swap activity is classified as held for trading from an accounting perspective. The Markets FX trading and sales activity is fully back-to-back (on a trade by trade basis) with BNY Mellon London Branch, hence no market risk resides in the trading book of BNY Mellon SA/NV.

BNY Mellon SA/NV is currently exposed to four types of market risk: (a) currency risk, (b) CVA, (c) interest rate risk, (d) credit spread risk and (e) pension risk.

- BNY Mellon SA/NV revenues are denominated in a mix of currencies whereas a high proportion of the bank's costs are denominated in Euro. Apart from the risk of currency mismatch between revenues and cost, the bank is not significantly exposed to this risk.
- Credit Valuation Adjustment (CVA) risk relates to the FX swaps used in the context of Treasury management and FX swaps client activity.
- BNY Mellon SA/NV interest rate income is subject to the risk that as market interest rates tend toward zero or below, BNY Mellon SA/NV cannot pass all of the interest rates reduction to its client. Interest rate risk in the banking book will also arise from maturity or re-pricing mismatches and from products that include embedded optionality; the risk could crystallize with changes in interest rate risk/the shape of the yield curve.
- The securities portfolio bears additional credit spread risk.
- Pension risk in BNY Mellon SA/NV arises from the defined benefit pension plans offer to the employees. Defined benefit plans constitute a risk because BNY Mellon SA/NV must compensate any shortfall in the fund's guaranteed pensionable amount. Only the Belgium and German plans may result in a liability for BNY Mellon SA/NV.

28.4.2. Market Risk Management Framework

BNY Mellon SA/NV undertakes market risk within the boundaries of the BNY Mellon's Risk Appetite as approved by the Board of Directors of The Bank of New York Mellon Corporation. The subsidiaries that issue Risk Appetite statements approved by their boards (as the BNY Mellon SA/NV) must undertake market risk within the boundaries of those statements as well. BNY Mellon SA/NV manages market risk using a "three lines of defense" approach (i.e. by each business unit, by Market Risk, and by Internal Audit).

BNY Mellon SA/NV personnel engaging in market risk-taking or exposure management activities must be explicitly authorized or mandated.

Market risk limits are set for market risk consistent with the BNY Mellon SA/NV's Risk Appetite (and Risk Appetite statements of subsidiaries, where relevant) and are jointly managed by the business units undertaking the risk and the Market Risk function (respectively, the first and second lines of defense).

Market risk exposure is measured, monitored and analyzed using both quantitative and qualitative methods by the Market Risk function.

BNY Mellon measures, monitors, and analyses market risk in a manner consistent with applicable law, regulations, and supervisory guidance.

The control framework elements addressing market risk limits include the following actions by the Market Risk Management function:

- Monitoring of utilization of market risk limits on a daily basis

- Reporting of limit utilization and limit breaches
- Periodic limit reviews
- Coordinating with business data providers to ensure the completeness and accuracy of data that is the basis for market risk data

Market Risk independently daily monitors limit breaches which, depending on the level and type of limit that is breached, are escalated and notified to the Executive Committee and Board Risk Committee, ALCO, or to Senior Risk Management and Business Management levels in the organizational hierarchy.

28.4.3. Market Risk – Non-trading

Interest rate risk arises from movements in interest rates. Interest rate risk results from differences between the timing of rate changes and the timing of cash flows (re-pricing risk); from changing rate relationships among different yield curves affecting bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in bank products (options risk).

Interest rate risk framework

For BNY Mellon SA/NV, the liabilities are predominantly without maturity.

Interest rate risk in the banking book will arise from maturity or re-pricing mismatches and from products that include embedded optionality; the risk could crystallize with changes in interest rate risk/the shape of the yield curve. Currently, on the asset side, placements are mostly at a week horizon and the securities portfolio, as part of the liquidity asset buffer, has a duration of about two years. Taking into account the behavioral duration of the deposits, it limits the exposure to interest rate risk.

Nonetheless, interest rate risk is a standard agenda item of BNY Mellon SA/NV ALCO. The current market risk limit scheme set within this framework in respect of BNY Mellon SANV is simple and sets straightforward controls on the level of IRRBB permitted in BNY Mellon SANV's treasury activities.

An enhanced second line of defense IRRBB framework has been implemented in 2017. The framework consists of a second line IRRBB Policy, a new more granular set of market risk limits (including daily monitoring and reporting) for the investment portfolio, a comprehensive formal second line challenge and review process of setting thresholds and production of the Board Risk Appetite metrics on EVE and NII as well as for the internal model used for the Pillar 2 IRRBB capital requirement calculation, and the introduction of a monthly stress testing process for the investment portfolio.

Sensitivity analysis

For regulatory purposes, an interest rate sensitivity analysis is prepared on a quarterly basis as shown below this paragraph.

BNY Mellon SA/NV IRRBB Metrics, as per below, was developed to assess the interest rate risk for BNY Mellon SA/NV using economic value of equity (EVE) measures, Net Interest Income (NII) measures, and Capital (including OCI) measures. Interest Rate Risk results include scenarios that are consistent with corporate Bank Holding Company (BHC) standards and regulatory guidance:

- EVE scenarios include parallel shocks, non-parallel shocks, curve-specific shocks, and currency-specific shocks.
- Earnings scenarios include parallel shocks, non-parallel shocks, and currency shocks
- OCI scenarios include parallel shocks.

The figures are computed within BNYM corporate ALM system, aligned with internal models and assumptions.

As these figures are based on internal assumptions, they will differ from the figures included in the pillar 3 disclosure.

| Description | Board Limit | | Belgium ALCO Guideline | | Actual (31-12-2019) | |
|--|-------------|--------|------------------------|--------|---------------------|-------|
| | 2019 | 2018 | 2019 | 2018 | + | - |
| +/-200 bps EVE change / Total Reg capital | +/-20% | +/-20% | +/-16% | +/-16% | -5.0% | 4.0% |
| +/-200 bps EVE sensitivity | +/-13% | +/-15% | +/-10.5% | +/-12% | -4.0% | 3.0% |
| +/-200 bps NII Sensitivity (12 month forecast) | -50% | -40% | -40% | -30% | -29.0% | 78.0% |

Credit spread risk framework

Movements in credit spreads impact the economic value of the investment portfolio held by the Bank. The Bank's investment portfolio is accounted for under the banking book category. Given the accounting category, default risk is captured under the capital requirements (under Credit Risk) and credit spread risk is accounted for via a dedicated Economic Capital model.

28.4.4. Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with BNY Mellon SA/NV's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. In addition, BNY Mellon SA/NV applies a monthly sell-off process in order to reduce foreign exchange exposure generated by the activity of the bank. This is done through foreign exchange from the currency into the base/functional currency of the entity.

The table below indicates a split of the statement of financial position items at carrying amounts at year end, per currency

Currencies exposures before economic hedge

| | EUR | GBP | USD | Other | In € '000 |
|--|------------------|------------|------------------|------------------|------------|
| 31 December 2019 | | | | | |
| Total assets | 16,970,844 | 1,903,112 | 9,026,691 | 4,979,932 | 32,880,579 |
| Total liabilities and shareholder's equity | 15,942,464 | 1,903,067 | 9,735,539 | 5,299,510 | 32,880,579 |
| The statement of financial position (net) | 1,028,381 | 44 | (708,847) | (319,578) | — |
| 31 December 2018 | | | | | |
| Total assets | 13,248,851 | 2,349,521 | 6,858,833 | 3,443,640 | 25,900,845 |
| Total liabilities and shareholder's equity | 13,340,341 | 2,348,784 | 6,823,010 | 3,388,711 | 25,900,845 |
| The statement of financial position (net) | (91,490) | 737 | 35,823 | 54,930 | — |

The table below indicates the currencies to which BNY Mellon SA/NV had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows.

The analysis calculates the effect of a reasonably possible movement of the currency rate against the Euro, with all other variables held constant, on the consolidated statement of profit and loss and other comprehensive income and equity. A negative amount in the table reflects a potential net reduction in consolidated statement of profit and loss and other comprehensive income or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Euro would have resulted in an equivalent but opposite impact.

Stress Test before economic hedge

| Currency | Variation | Conversion rate at closing | Effect on profit before tax | Effect on equity | Variation | Conversion rate at closing | Effect on profit before tax | Effect on equity |
|----------|-----------|----------------------------|-----------------------------|------------------|-----------|----------------------------|-----------------------------|------------------|
| | | 2019 | 2019 | 2019 | | 2018 | 2018 | 2018 |
| | | | € Mio | € Mio | | | € Mio | € Mio |
| Scenario | 1% | | | | 1% | | | |
| USD | 0.0112 | 1.1231 | (151.06) | 55.46 | 0.0115 | 1.145 | 56.46 | 56.59 |
| GBP | 0.0085 | 0.851 | (17.06) | 14.98 | 0.0089 | 0.895 | 15.94 | 15.99 |

BNY Mellon SA/NV is entering into FX Forward for “economic hedge” purposes. So, net exposures after economic hedging are not significant.

BNY Mellon SA/NV also manages its liquidity by currency and ensures that the net position in each currency does not exceed internal limits.

28.4.5. Regulatory and Economic Capital Requirements

Capital requirement for market risk Pillar 2 (covering FX, CVA, IRRBB and CSRBB) resulted in an (unaudited) amount of €744.6Mio (2018: € 724 Mio), versus the Pillar 1 calculation of €12 Mio (2018: €3.5 Mio).

28.5. Operational Risk

28.5.1. Source of Risks

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

Operational risk may arise from errors in transaction processing, breaches of internal control systems and compliance requirements, internal or external fraud, damage to physical assets, and/or business disruption due to systems failures or other events. Operational risk can also arise from potential legal or regulatory actions as a consequence of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations.

28.5.2. Operational Risk Management Framework

The Operational Risk Management Framework (ORMF) provides the processes and tools necessary to fulfill a strategy of managing risk through a culture of risk awareness, a clear governance structure, well-defined policies, procedures and reporting and suitable tools for reporting and monitoring to effectively identify, manage, mitigate, monitor and report the risks in an organized way to the appropriate governance bodies.

The ORMF defines roles and responsibilities through the global policy, using the three Lines of Defense model as a foundation. Thus, responsibility for the management of Operational Risk sits first and foremost with the business and functions.

BNY Mellon SA/NV's ORMF relies on a culture of risk awareness, a clear governance structure and, Operational Risk policies and procedures, which define the roles and responsibilities of the First, Second and Third Line of Defense. These policies and procedures complement each other to ensure that the Operational Risks of the business are effectively identified, managed, mitigated (where possible) and reported to the appropriate governance committees on a monthly basis.

BNY Mellon SA/NV uses the ORMF to capture, analyze and monitor its Operational Risks. The tools used to manage the Operational Risks of the business are mandated through individual Operational Risk Policies and are prescribed through the enterprise Operational Risk program, assessment systems and related processes. Regional Committees such as the EMEA Senior Risk Management Committee also monitor and incorporate the material risks in forming its regional risk assessment.

BNY Mellon SA/NV utilizes comprehensive policies and procedures designed to provide a sound operational environment. The Corporate Operational Risk Policies are reviewed and enhanced on an ongoing basis, and adopted by all businesses/Legal Entities including BNY Mellon SA/NV. Business Risk partners oversee the activities undertaken in each of the business lines, with oversight from a Legal Entity point of view through the LERO. Besides Business Risk partners and LEROs, other internal functions also ensure that processes are in place to support the sound Operational Risk management of the business.

28.5.3. Regulatory and Economic Capital Requirements

Capital requirement for operational risk Pillar 2 (using an internal hybrid model) resulted in an (unaudited) amount of € 322.5 Mio (2018: €298 Mio), versus the Pillar 1 calculation of €101.2 Mio (2018: €93.5 Mio).

29. Capital

BNY Mellon SA/NV maintains an actively managed capital base to cover risks inherent to the business. The adequacy of BNY Mellon SA/NV's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the NBB in supervising BNY Mellon SA/NV. During the past year, BNY Mellon SA/NV had complied with its externally imposed capital requirements. Please refer to point 28.1.4 for additional comments on excessive risk concentration.

29.1. Capital Management

According to Pillar II of the Basel principles, banks have to perform their own evaluation of the economic capital and to conduct stress tests in order to assess their needs in own funds in case of a downturn in the economy. This pillar has the effect of structuring the dialog with the NBB on the capital adequacy level adopted by the credit institution.

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), BNY Mellon SA/NV defined measurement methods for its economic need for capital as well as management and control methods to encompass its risk policies. Furthermore, stress test scenarios are applied, e.g. economic downturn scenarios as well as idiosyncratic scenarios. These tests conclude that BNY Mellon SA/NV is sufficiently capitalized to encompass most of the scenarios. Where needed, additional capital requirement were calculated on the basis of the stress test. The difference between the economic capital and the regulatory capital incorporates the margin ensuring that the capital level of BNY Mellon SA/NV is sufficient at all times. The latter is in function of the risk profile and of the risk aversion of BNY Mellon SA/NV.

Regulatory capital

| | 2019 | 2018 |
|---|--------------|--------------|
| | € Mio | € Mio |
| Qualifying Core Tier1 capital | 3,139 | 2,972 |
| Qualifying Tier1 capital | — | — |
| Total qualifying Tier 1 capital | 3,139 | 2,972 |
| Deductions | (43) | (19) |
| Total qualifying Tier 2 capital | 346 | 346 |
| Total capital | 3,442 | 3,299 |
| Total Risk Exposure Amount | 4,700 | 3,822 |
| Risk weighted exposure amount for credit risk | 3,291 | 2,610 |
| Risk exposure amount for foreign exchange risk | 84 | — |
| Risk exposure amount for credit valuation adjustment (CVA) | 61 | 44 |
| Risk exposure amount for operational risk | 1,265 | 1,168 |
| Capital Ratios | | |
| Core Tier 1 capital ratio | 65.9% | 77.3% |
| Tier 1 capital ratio | 65.9% | 77.3% |
| Total capital ratio | 73.2% | 86.3% |
| Leverage ratio (fully phased-in) | 8.7% | 10.6% |

Regulatory capital consists of qualifying core Tier 1 capital, which comprises the paid up share capital, share premium, retained earnings, including current year profit and filtering out the valuation reserves, less goodwill and other intangibles. The Board has formally adopted a (non-)dividend policy by which all profits are systematically carried forward and recommended the same for approval to the shareholders' meeting. For risk weighted exposure amount for credit risk, the standardized approach is used. Certain adjustments are made to IFRS-based results and reserves.

During the second quarter of 2015, BNY Mellon SA/NV implemented the Master Netting Agreement covering the netting of placements and deposits with BNY Mellon Corporation, as an eligible form of credit risk mitigation under the capital requirements regulation (CRR) for regulatory reporting purpose.

30. Subsequent events

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various governments and institutions around the world responding in different ways to address the outbreak. There are meaningful direct and indirect effects developing and the Company will continue to monitor the impact of the outbreak on its business and operations. The outbreak could result in reduced capital markets activity, lower asset price levels, disruptions in general economic activity, or in financial market settlement functions, which could negatively impact the business and results of operations, or realizable value of assets.

We have reacted quickly to the pandemic and instructed our full workforce to work from home. Our IT infrastructure is supporting this new way of working and we are otherwise operating business as usual without disruption to business continuity or outsourced operations.

This crisis is considered a non-adjusting event with respect to the 2019 financial statements. As of the date of this report, there are no indicators of significant impairment to the Company's financial and non-financial assets nor significant loss contracts or credit risk exposures as a result of this event. The Company has experienced an increase in balance sheet obligations during the first quarter of 2020, which is attributable to changes in customer behaviour of investing more in cash during current market turbulences. Although the balance sheet increase is technically increasing our capital consumption, we have a significant buffer and a very prudent replacement of excess cash, mainly at the ECB. Similarly, although credit spread increases in the market negatively impact our Pillar 2 ratios, we have significant buffers in place to help address the risk of adverse financial impact from the effects of the ongoing pandemic. There remain a number of uncertainties about the full impact of the crisis on the 2020 financials and we are monitoring the developments closely.



The Bank of New York Mellon SA/NV
46 Rue Montoyerstraat
1000 Brussels
Belgium
V.A.T. BE 0806.743.159 - Company No. 0806.743.159 Brussels RPM-RPR.

bnymellon.com

The Bank of New York Mellon SA/NV is a Belgian public limited liability company (société anonyme/naamloze vennootschap), authorized and regulated as a credit institution by the National Bank of Belgium (NBB), and a subsidiary of The Bank of New York Mellon, a banking corporation organized under the laws of the State of New York, with head office at 240 Greenwich Street, New York, NY 10007, United States