

**The Bank of New York Mellon SA/NV**

**PILLAR 3 DISCLOSURE  
DECEMBER 31, 2014**



**BNY MELLON**

**Invested**

## Pillar 3 Disclosure

Pillar 3 disclosures are published in accordance with the requirements of the National Bank of Belgium (NBB) Title XIV of the own funds regulation published on November 15, 2011. In addition, the REGULATION (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR) and the Guidelines on Disclosure of encumbered and unencumbered assets (EBA/GL/2014/03) were taken into account.

## Policy and Approach

Pillar 3 disclosures are required for a consolidated group and for those parts of the group covered by the Capital Requirement Directive. There is currently no comparable disclosure provided on a consolidated basis by **Error! Reference source not found.**'s parent undertaking (The Bank of New York Mellon Corporation (BNY Mellon)). As such, these disclosures have been prepared for **Error! Reference source not found.** (BNYM SA/NV) including all its branches and subsidiary.

These disclosures have been approved by **Error! Reference source not found.**'s Board of Directors who has verified that they are consistent with formal policies adopted regarding production and validation.

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

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content e.g. disclosure about risk management practices and capital resources at year end. Unless indicated otherwise, information contained within this document has not been subject to external audit.

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

Disclosures will be published on The Bank of New York Mellon Group website ([www.bnymellon.com](http://www.bnymellon.com)), see section Investor relations, Financial reports, other regulatory filings on the Company's website.

The Board may omit one or more disclosures if the information provided is not regarded as material. The criterion for materiality used in these disclosures is that the bank will regard as material any information where omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

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

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

This approach to Pillar 3 disclosure will be periodically reassessed and updated in light of market and regulatory developments associated with Pillar 3.

# Table of Contents

Pillar 3 Disclosure.....	1
Policy and Approach .....	2
Table of Contents .....	3
1 Introduction .....	4
1.1 Purpose of Pillar 3 .....	4
1.2 Highlights and Key Post Balance Sheet Date Events .....	4
2 Scope and Application of Directive Requirements .....	5
2.1 Structure of BNYM SA/NV .....	5
2.2 Composition and activities of the Board and its Committees .....	6
3 Risk Management Objectives and Policies .....	7
3.1 Risk Management Framework.....	7
3.2 Scope and Nature of Risk Reporting Systems .....	7
3.3 Risk Management Governance .....	9
3.4 Risk Appetite.....	10
3.5 Risks Identified by BNYM SA/NV .....	11
3.6 Continuous improvements .....	19
4 Capital Resources.....	20
4.1 Available Capital Resources.....	20
4.2 Reconciliation between own funds from regulatory disclosure and equity from financial statements .....	21
4.3 Description of the main features of own funds .....	21
4.4 Risk Weighted Assets.....	21
5 Capital Requirements .....	22
6 Asset encumbrance .....	23
7 Remuneration Disclosure .....	24
7.1 Governance .....	24
7.2 Aligning pay with performance .....	24
7.3 Remuneration components: Fixed remuneration .....	24
7.4 Variable compensation funding and risk adjustment.....	25
7.5 Ratio between fixed and variable remuneration .....	25
7.6 Deferral policy and vesting criteria .....	25
7.7 Variable remuneration of control function staff.....	25
7.8 Quantitative Remuneration Disclosure.....	25
8 Glossary of Terms.....	28
Contacts.....	30

# 1 Introduction

The Bank of New York Mellon (BNY Mellon or the 'Group') is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As at December 31, 2014, BNY Mellon had \$28.5 trillion in assets under custody and/or administration, and \$1.71 trillion in assets under management.

These 2014 Pillar 3 disclosures relate to **Error! Reference source not found.** (BNYM SA/NV) and are published in accordance with the requirements of the National Bank of Belgium (NBB) Title XIV of the own funds regulation published on November 15, 2011 and the Regulation (EU) No 575/2013 of June 26, 2013. BNYM SA/NV uses the Standardised Approach for calculating credit, CVA, market and operational risk.

This disclosure is for **Error! Reference source not found.** and its subsidiary undertakings as at December 31, 2014. It comes as a complement to the 2014 Financial Statements.

These disclosures were approved for publication by BNYM SA/NV Board of Directors (the 'Board') on June 30, 2015.

## 1.1 Purpose of Pillar 3

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

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

## 1.2 Highlights and Key Post Balance Sheet Date Events

The following events took place in 2014 and are considered important events that impacted BNYM SA/NV:

- In November 2014, it was decided to no longer offer derivative clearing services. The closure is effective at March 31, 2015.
- BNYM SA/NV is determined by the regulator as a domestic systemically important financial institution (SIFI) and is subject to the European Central Bank (ECB) Comprehensive Assessment, including an Asset Quality Review (AQR), as part of the Single Supervisory Mechanism.
- The balance sheet was optimized during 2014 to adapt the Bank to CRD-IV requirements in line with the low risk appetite. This had the effect of reinforcing the capital adequacy ratio.
- A Supervisory Review and Evaluation Process (SREP) on our ICAAP file resulted in specific requirements for BNYM SA/NV, including the requirement to increase our Pillar 1 capital adequacy ratio threshold to 14.15%.

## 2 Scope and Application of Directive Requirements

### 2.1 Structure of BNYM SA/NV

The Bank of New York Mellon SA/NV (BNYM SA/NV) 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).

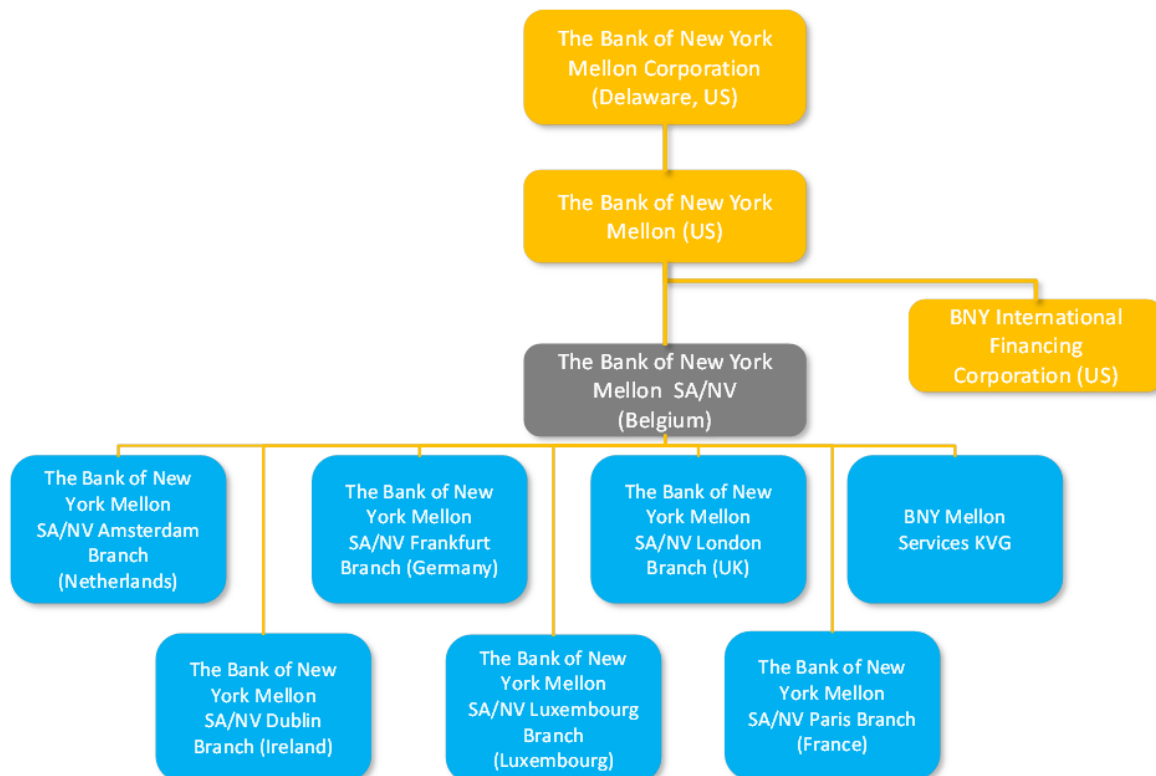
BNYM SA/NV is a Belgian limited liability company established on September 30, 2008 under the form of a Société Anonyme/Naamloze Vennootschap. It was granted its banking license on March 10, 2009. It has its headquarters and main establishment at 46 Rue Montoyerstraat, 1000 Bruxelles/Brussel. It is 99.9999% owned by The Bank of New York Mellon and 0.0001% owned by BNY International Financing Corporation.

BNYM SA/NV was established with the aim of becoming BNY Mellon's main banking subsidiary in Continental Europe. During 2009, part of the business of the Brussels Branch of BNY Mellon was merged into BNYM SA/NV. In 2009, BNYM SA/NV also merged with BNY Mellon Asset Servicing BV leading to the creation of branches in Amsterdam, London, Frankfurt and Luxembourg and a representation office in Copenhagen. It acquired BHF Asset Servicing GmbH and Frankfurter Service KAG mbH in 2010. These were subsequently integrated as the Frankfurt Branch of BNYM SA/NV and the BNY Mellon Service KVG respectively.

A Paris Branch was created on December 1, 2011. On February 1, 2013, BNYM SA/NV merged with The Bank of New York Mellon (Ireland) Limited, with the latter forming the Dublin branch of BNYM SA/NV.

The corporate structure of BNYM SA/NV is illustrated in Figure 1.

Figure 1: BNYM SA/NV corporate structure



BNYM SA/NV provides custody and related services to third party clients and Group affiliates as a standalone product or combined with other services such as the depository bank function, securities lending, global collateral management and fund administration.

## 2.2 Composition and activities of the Board and its Committees

The Board is composed of natural persons, shareholders or not. The Board includes all members of the Executive Committee (“Comité de direction”), i.e. the executive directors. The majority of the Board members are non-executive directors. There shall always be a majority of non-executive directors in the Board. At least two of the non-executive Board members are independent directors (as defined in the Belgian Companies Code and set out below).

**Error! Reference source not found.** shows the members of the Board and its committees on December 31, 2014.

**Table 1: Board members**

<b>Name</b>	<b>Position</b>
<b>Non-Executive Directors</b>	
Wim Hautekiet	Chairman of the European Bank and Chair of the Nomination and Remuneration Committees
Michael Cole-Fontayn	Member of the Nomination and Remuneration Committees
Jim McEleney	Member of the Audit and Risk Committees
Olivier Lefebvre	Independent Chair of the Audit Committee and Independent Member of the Remuneration Committee
Jürgen Marziniak	Independent Chair of Risk Committee and Independent Member of the Nomination Committee
Kurt Woetzel	Member of the Audit and Risk Committees
Karen Peetz	Member of the Nomination and Remuneration Committees
Hani Kablawi	Member of the Audit and Risk Committees
<b>Executive Directors</b>	
Laura Ahto	Chief Executive Officers President of the Executive Committee
Joe Duffy	Deputy Chief Executive Officer Member 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 Member of the Executive Committee

All nominations to the Board are made against merit and on the basis of director’s qualifications and in accordance with the needs of the Board at the time of the nomination, with due regard to diversity and gender parity. At least one third of each gender shall be represented on the Board and on the Executive Committee. Such distribution should be reached by 2020.

## 3 Risk Management Objectives and Policies

### 3.1 Risk Management Framework

BNYM SA/NV approach to risk management is to ensure that all material risks are defined, understood and effectively managed according to well-designed policies and controls. The firm maintains an appropriate Risk Management Framework that promotes a risk-aware and transparent culture and the identification, assessment, mitigation, measurement and escalation of risk and control issues.

BNYM 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 BNYM SA/NV businesses develop in a risk controlled environment. It encourages a proactive culture of managing risks and applies the three lines of defence model (see section 3.3).

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

The Board adopts a prudent appetite to all elements of risk to which BNYM SA/NV is exposed. BNYM SA/NV uses a variety of metrics to measure and monitor its risk taking activities relative to its risk appetite. Articulating risk appetite through such risk metrics aids decision-making in relation to actions such as pursuing new products and enterprises, exiting businesses, and aligning resources to maximise potential gains within acceptable levels of risk.

### 3.2 Scope and Nature of Risk Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by BNYM SA/NV. These limits reflect the business strategy and market environment of BNYM SA/NV as well as the level of risk that BNYM SA/NV is willing to accept. In addition, BNYM 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 analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors and the head of each business division. The Executive Committee receives a comprehensive risk report monthly which is designed to provide all the necessary information to assess and conclude on the risks of BNYM SA/NV.

For all levels throughout BNYM SA/NV, specifically tailored risk reports are prepared and distributed to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk identification occurs in the business (operational areas) and is assessed within the risk department. A summary of the main identification processes are listed here.

- **Risk Assessments**

Risk assessments for new or modified products and or significant business process changes allow for changes in risk profile to be captured.

- **Risk and Control Self-Assessment**

The Risk and Control Self-Assessment (RCSA) is a tool used by the business to identify risks associated with their key processes. High or Moderate to high residual risks form part of a regular risk management report to the RMC. This ensures that although the RCSA process is owned by the line of business in conjunction with the business risk managers, the RMC has oversight of the key exception items relating to BNYM SA/NV on an ongoing basis.

- **Operational risk events**

All operational losses and fortuitous gains exceeding \$10,000 (USD) are captured in the Risk Management platform with completeness being verified by reconciliation to the General Ledger. Risk events are categorised

by causal category. Operational Loss Events reporting form part of the standard risk management report to the Risk Management Committee.

- **Credit risk monitoring**

All counterparties (clients and banks) are assessed and allocated a borrower rating in accordance with the BNY Mellon's credit rating system. Monitoring and control of counterparties are conducted via a number of real-time systems to ensure that approved exposure levels are not exceeded, or are pre-approved by a suitable credit officer in the light of individual circumstances.

BNY Mellon is working on integrating all client exposures within one system in order to ensure that the process of credit monitoring is consistent within the Company.

Post event monitoring is also conducted by both Client Service areas and the Credit function. Issues arising from these are reported to the BNYM SA/NV Risk Management Committee.

- **Market risk**

FX positions are monitored against limits and the outcomes are presented to monthly RMC. .

- **Interest Rate Risk in the Banking Book (IRRBB)**

The balance sheet of BNYM SA/NV is composed of bank placements of a short-term nature and the securities portfolio on the assets side, and deposits and subordinated debt on the liabilities side. The securities portfolio is operationally managed by Treasury. It is used as liquidity buffer and is not hedged for interest rate risk purposes.

- **Investment portfolio**

The investment Portfolio of the SA/NV is monitored on a daily basis by the Market Risk team. The compliance of this portfolio with the different limits set by the Investment Guidelines and by the Risk Appetite Statement is controlled on a daily basis together with the external ratings of each individual position. The daily monitoring also includes the Banking Book risk volatility (IRRBB and Credit Spread Risk) as well as an approximate P&L impact.

- **Liquidity risk**

BNYM SA/NV's overall approach to liquidity management is to ensure that sources of liquidity are sufficient in amount and diversity, such that changes in funding requirements can be accommodated routinely without material adverse impact on earnings, daily operations, or on the financial condition of the firm. In this context BNYM SA/NV has set certain practices, metrics, and limits to measure and manage liquidity risk. Through these measures, it seeks to ensure that the overall liquidity risk undertaken stays within its risk tolerance.

- **Top Risk methodology**

Top Risks are identified for BNYM SA/NV according to the assessment of the inherent risk, quality of controls in place to mitigate risk and likelihood to identify residual risk. Top Risks are rated as High, Moderate to High, Moderate, Moderate to Low and Low with direction anticipated. The Top Risk assessed form part of the risk management reporting in the RMC and Board meetings.

- **Stress Testing**

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

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by BNYM SA/NV's Capital and Stress Testing Committee (CSTC) and the Board.



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

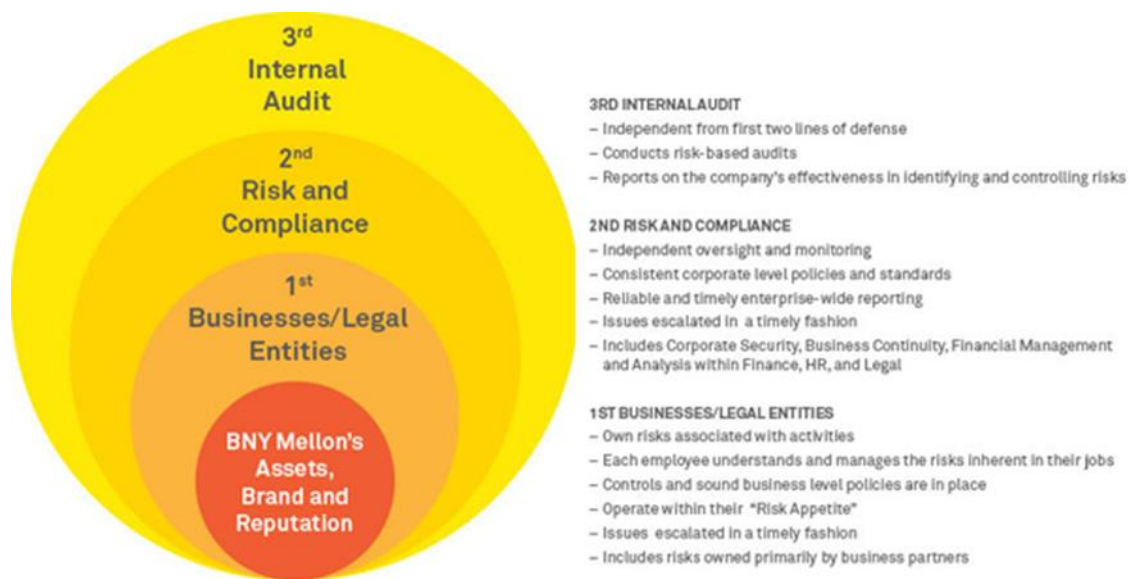
### 3.3 Risk Management Governance

#### 3.3.1 Entity Level Risk Management

BNYM SA/NV's Risk Management Framework maintains a capable, effective, adequately resourced and forward looking organisation that is well placed to identify and manage emerging risks in a timely manner for BNYM SA/NV. This is also achieved through a capitalization on BNY Mellon skills & resources.

As a common approach implemented by BNY Mellon, BNYM SA/NV has adopted a 'three lines of defence' model as part of the risk management framework (Figure 2). The First Line of Defence is managers and employees at the business or, in some cases, business partner level. They own the risk associated with the business activities, and they manage the risks and the related control processes and procedures on an operational basis. The Risk Management and Compliance functions are the Second Line of Defence. They own the enterprise-wide Risk Management Framework and provide independent oversight of the first line of defence. This also includes Corporate Security, Business Continuity, Financial Management and Analysis within finance. The Third Line of Defence is Internal Audit, which independently provides the BNYM SA/NV Board of Directors and senior management with the assurance that the governance structures, risk management and internal controls in place are effective.

Figure 2: Three Lines of Defence



The Executive Committee has delegated day-to-day risk management to its sub-committees: Risk Management Committee, Assets and Liabilities Committee, Credit Risk Oversight Committee and Capital and Stress Testing Committee.

The key purpose of the Risk Management Committee is to provide oversight of the risk management process for the underlying businesses, subsidiaries 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 Committee also plays a central role in ensuring that material change having the potential to affect BNYM SA/NV is identified in a timely manner and managed in an appropriate fashion.

At BNYM SA/NV, the Board is responsible for both the management and the oversight of risks together with the quality and effectiveness of internal controls while it has delegated risk management oversight to the Risk

Committee of the Board. The Board is responsible for reviewing, challenging and approving all risk management processes including risk identification and assessment, stress testing and capital adequacy. The various control functions provide further support for the management of risk within the business.

The Risk Committee of the Board 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 appetite and the risk management of the Company as well as the compliance with legal and regulatory requirements and the controls to prevent, deter and detect fraud. The Risk Committee of the Board met 4 times in 2014: 20 January, 22 April, 22 July and 3 November.

### **3.3.2 EMEA Risk Management Framework**

As a global organisation, BNY Mellon has established governance structures to monitor and assess risks on an enterprise-wide basis. BNY Mellon is organised on a regional basis, whereby BNYM SA/NV is included within the Europe, Middle East and Africa (EMEA) region. Oversight for EMEA is executed primarily through the following committees:

- EMEA Executive Committee
- EMEA Senior Risk Management Committee
- Investment Services and Markets Committee
- EMEA Asset and Liability Committee

### **3.4 Risk Appetite**

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

The risk appetite is articulated through a comprehensive set of metrics; thresholds or tolerance limits for each metric are established to measure the performance of the business against its risk appetite.

#### **Risk Appetite Statement for BNYM SA/NV**

BNYM SA/NV is committed to ensuring that, in executing on its strategic and operational plans, it at all times operates within its own risk appetite, which is reviewed on an annual basis. In order to achieve this, BNYM SA/NV is committed to having a robust statement of risk appetite that can be clearly communicated to all of its stakeholders and beyond which it will not operate. Furthermore, BNYM SA/NV is committed to ensuring that forward looking controls over the individual components of Risk Appetite are embedded into the terms of reference of the Governance committees that both directly and indirectly have the ability to influence the risk profile of BNYM SA/NV. BNYM SA/NV's Risk Appetite Framework defines the roles and responsibilities for ownership, approval and monitoring of risk appetite, and the incorporation of risk appetite into the governance, business management, decision making and strategy development processes of BNYM SA/NV. BNYM SA/NV Risk Appetite approach is aligned with the Group's approach while, also taking into account BNYM SA/NV's specificities when deemed necessary.

The Board of BNYM 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.

It is only with the explicit advance approval of the Board of BNYM SA/NV that any amendments, additions or deletions to this statement or any of our stated tolerances can be undertaken.

## **3.5 Risks Identified by BNYM SA/NV**

### **3.5.1 Credit Risk**

#### **3.5.1.1 Credit Risk coverage**

Credit risk is the risk that an obligor is unable or unwilling to satisfy an obligation when it falls due. Credit risk can originate from on-balance sheet obligations such as deposits, loans, commitments, securities and other assets by failing to make the required repayments. Credit risk can also be created by off-balance sheet items including traded counterparty credit risk and securities lending indemnifications and letters of credit.

The Board of BNYM SA/NV considers credit risk to be one of the material risks to which BNYM SA/NV is exposed. Consequently, it has put credit risk management policies and metrics in place. This policy forms part of the global suite of BNY Mellon Credit Risk Management policies and governance infrastructure. These policies are generally product, counterparty, business line or process specific and give minimum standards, requirements, approval levels and authorities, for key tasks and functional credit areas. BNYM SA/NV operates as far as practicable according to the policies, processes, procedures and authorities set out in BNY Mellon's Risk Policy Manual.

The Credit Risk Management Framework (CRMF) defines roles and responsibilities using the three lines of defence, as defined in section 3.3.1. The CRMF within BNYM 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.

Credit risk is managed and monitored by several teams globally, including officers in Brussels and is reported to the BNYM SA/NV Credit Risk Oversight Committee (CROC). Monitoring and control is conducted via a number of real-time 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.

Global custody overdrafts are monitored and controlled to ensure that approved exposure levels are not exceeded, or are approved by a suitable credit officer in the light of individual circumstances. Custody client overdrafts are monitored, tracked and escalated on an intraday and/or next-day basis. Criteria in relation to large exposure limits, ageing, borrower rating, limits, Assets Under Custody, origin of the overdraft are monitored and any exposure above set thresholds is reported daily to a Credit Portfolio Manager. Securities lending monitors daily the volume of outstanding on-loan contracts and follow-up on collateralization levels. Instances of insufficiently collateralization are escalated to the appropriate division for follow-up.

Post event monitoring is conducted by both client service areas and the credit risk function. Specific guidelines to these processes are detailed in the Group Credit Risk Policy Manual database.

Risk appetite metrics have been defined for credit risk and these are reported to the Risk Management Committee.

#### **3.5.1.2 Credit Risk Exposure**

This section is based on the prudential information as presented in the COREP, including on-Balance Sheet, off-Balance Sheet and Derivative information, both for 2014 and 2013 figures.

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

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

The following credit risk exposure tables (1) to (5) summarise the credit exposure for BNYM SA/NV.

- i) Standardised gross Credit exposure (EAD pre CRM)*

The following table summarises the standardised gross credit exposure by exposure class as at December 31, 2014.

**Table 2: Standardised gross credit exposure by exposure class**

Standardised gross credit exposure by exposure class (€000s)	Exposure at Default (EAD) pre Credit Risk Mitigation		Average EAD pre CRM		Standardised Credit Risk Capital Requirement	
	2014	2013	2014	2013	2014	2013
Central Governments and Central Banks (*)	17,446,843	11,209,957	14,763,748	10,655,170	15,935	-
Institutions (**)	19,052,934	1,773,008	32,163,174	12,259,021	250,578	11,393
Corporates	6,634,144	2,491	3,963,449	623	135,362	199
Short term claims on Institutions and Corporates	0	48,625,697	0	45,691,625	0	741,636
Collective Investment Undertakings	0	367	1,250	7,121	0	29
Other	273,370	293,309	267,474	318,440	21,990	23,465
<b>Total</b>	<b>43,407,290</b>	<b>61,904,829</b>	<b>51,159,095</b>	<b>68,932,000</b>	<b>423,865</b>	<b>776,722</b>

Exposures previously allocated into Short-term claims have been reallocated towards other exposure classes, explaining why this category appears as empty for 2014 in Table 2.

ii) Standardised gross Credit exposure (EAD pre CRM and after CRM) by credit quality step

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

**Table 3: Standardised gross credit exposure by credit quality step (EAD pre CRM)**

Standardised Pre-mitigated Credit Exposures by Credit Quality Step (€000s)	Central Governments and Central Banks		Institutions: Maturity <= 3m (*)		Institutions: Maturity > 3m (*)		Corporates (**)		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<b>1</b>	17,434,384	11,209,957	12,134,408	503,363	2,088,882	1,269,646	519,259	47,134,632	67,811	-	32,244,745	60,117,597
<b>2</b>	6,087	-	4,205,308	-	-	-	4,161,525	8,762	-	-	8,372,921	8,762
<b>3</b>	6,370	-	115,612	-	-	-	879,279	1,350,161	-	-	1,001,261	1,350,161
<b>4</b>	1	-	94,736	-	-	-	960	134,924	-	-	95,696	134,924
<b>5</b>	1	-	52,921	-	-	-	43	-	-	-	52,965	-
<b>6</b>	-	-	589	-	-	-	-	76	-	-	589	76
<b>Unrated</b>	-	-	360,477	-	-	-	1,073,077	-	205,559	293,309	1,639,113	293,309
<b>Total</b>	<b>17,446,843</b>	<b>11,209,957</b>	<b>16,964,051</b>	<b>503,363</b>	<b>2,088,882</b>	<b>1,269,646</b>	<b>6,634,144</b>	<b>48,628,554</b>	<b>273,370</b>	<b>293,309</b>	<b>43,407,290</b>	<b>61,904,829</b>

(\*) Including Multilateral Development Banks and Covered Bonds

(\*\*) Including Collective Investment Undertakings and 'Short term claims on Institutions and Corporates'

**Table 4: Standardised gross credit exposure by credit quality step (EAD after CRM)**

Standardised Post-mitigated Credit Exposures by Credit Quality Step (€000s)	Central Governments and Central Banks		Institutions: Maturity <= 3m (*)		Institutions: Maturity > 3m (*)		Corporates (**)		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<b>1</b>	17,434,384	11,209,957	11,192,348	96,103	2,088,882	1,269,646	517,659	40,707,369	67,811	-	31,301,085	53,283,075
<b>2</b>	6,087	-	2,168,057	-	-	-	846,858	8,762	-	-	3,021,002	8,762
<b>3</b>	6,370	-	115,076	-	-	-	62,404	1,252,339	-	-	183,850	1,252,339
<b>4</b>	1	-	94,736	-	-	-	105	134,924	-	-	94,841	134,924
<b>5</b>	1	-	52,921	-	-	-	43	-	-	-	52,965	-
<b>6</b>	-	-	589	-	-	-	-	76	-	-	589	76
<b>Unrated</b>	-	-	199,280	-	-	-	790,889	-	205,559	293,309	1,195,727	293,309
<b>Total</b>	<b>17,446,843</b>	<b>11,209,957</b>	<b>13,823,006</b>	<b>96,103</b>	<b>2,088,882</b>	<b>1,269,646</b>	<b>2,217,958</b>	<b>42,103,469</b>	<b>273,370</b>	<b>293,309</b>	<b>35,850,059</b>	<b>54,972,484</b>

(\*) Including Multilateral Development Banks and Covered Bonds

(\*\*) Including Collective Investment Undertakings and 'Short term claims on Institutions and Corporates'

iii) Standardised gross Credit exposure (EAD pre CRM) by geographical area<sup>1</sup>

The following table summarises the standardised gross credit exposure by geographic area as at December 31, 2014

<sup>1</sup> Geographic distribution is based on the country of risk of the borrower or obligor. A breakdown is made for the following areas: Americas, Europe, Middle East & Africa, Asia Pacific.

**Table 5: Standardised gross credit exposure by geographic area**

Standardised exposure classes (€000s)	Europe		Americas		Middle East & Africa		Asia Pacific		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Central Governments and Central Banks	13,105,190	11,023,271	4,338,100	181,723	982	4,963	2,570	-	17,446,843	11,209,957
Institutions (*)	13,621,422	1,773,001	2,914,101	7	114,692	-	2,402,718	-	19,052,934	1,773,008
Corporates	4,933,501	-	1,700,632	2,491	0	-	11	-	6,634,144	2,491
Short term claims on Institutions and Corporates	-	4,097,450	-	43,419,141	-	142,547	-	966,558	-	48,625,696
Collective Investment Undertakings	-	212	-	155	-	-	-	-	-	367
Other	250,350	293,309	22,955	-	-	-	64	-	273,370	293,309
<b>Total</b>	<b>31,910,463</b>	<b>17,187,243</b>	<b>8,975,789</b>	<b>43,603,518</b>	<b>115,674</b>	<b>147,510</b>	<b>2,405,363</b>	<b>966,558</b>	<b>43,407,290</b>	<b>61,904,829</b>

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

The following table summarises the standardised gross credit exposure by residual maturity as at December 31, 2014

**Table 6: Standardised gross credit exposure by residual maturity**

Standardised gross credit exposure by residual maturity (€000s)	Less than 3 months		3 months to 1 year		Over 1 year or undefined		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Central Governments and Central Banks	7,439,794	8,853,052	1,198,485	275,817	8,808,564	2,081,087	17,446,843	11,209,957
Institutions (*)	16,964,051	503,363	498,642	45,914	1,590,240	1,223,732	19,052,934	1,773,008
Corporates	6,629,720	2,491	4,424	-	-	-	6,634,144	2,491
Short term claims on Institutions and Corporates	-	48,602,546	-	-	-	23,150	-	48,625,696
Collective Investment Undertakings	-	367	-	-	-	-	-	367
Other	-	-	-	-	273,370	293,309	273,370	293,309
<b>Total</b>	<b>31,033,565</b>	<b>57,961,820</b>	<b>1,701,551</b>	<b>321,731</b>	<b>10,672,174</b>	<b>3,621,278</b>	<b>43,407,290</b>	<b>61,904,829</b>

(\*) Including Multilateral Development Banks and Covered Bonds

### 3.5.1.3 Capital Resource Requirement

BNYM SA/NV calculates Pillar 1 credit risk capital resource requirement using the Standardised Approach, in line with Title V of NBB circular 2007-1-CPB.

### 3.5.2 Counterparty Credit Risk and Credit Value Adjustment

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

The Credit Value Adjustment (CVA) reflects the current market value of the counterparty credit risk by measuring the difference between the risk-free value of the portfolio and the true value of the portfolio, when defaults have been considered. The credit valuation adjustment was added in the calculation as from June 30, 2014 in line with CRR requirement. It was calculated on derivative positions according to the standardised formula, without eligible hedge.

### 3.5.3 Market Risk

#### 3.5.3.1 Market Risk coverage

Market risk is defined as the risk of adverse change to the economic condition of BNY Mellon due to variations in 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 Company's trading and investment portfolios.

The Bank is exposed to the following types of market risk:

- Currency risk is the risk that a change in foreign exchange rates will create adverse impacts to the financial performance. BNYM SA/NV is naturally exposed to exchange risk as it operates in more than 100 markets

b) Interest rate risk and credit spread risk in the banking book are further described in sections 3.5.5 and 3.5.6.

### **3.5.3.2 Capital Resource Requirement**

BNYM SA/NV calculates the Pillar 1 market risk capital resource requirement for FX based on the Standardised approach as defined in Article IX.73 NBB circular 2007-1-CPB.

### **3.5.4 Operational Risk**

#### **3.5.4.1 Operational Risk coverage**

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

BNYM SA/NV has an embedded Operational Risk Management Framework (ORMF), consistent with the BNY Mellon Group framework.

The ORMF defines roles and responsibilities, using the three lines of defence model as a foundation.

The ORMF within BNYM SA/NV relies on 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 body.

BNYM SA/NV has a risk appetite statement which recognises the inherent nature of operational risk and the reliance on its ORMF to mitigate it.

BNYM SA/NV has several tools to aid in understanding and monitoring its operational risk including Operational Risk Events, Risk Control Self Assessments, Key Risk Indicators and Operational Risk Scenario Analysis.

- **Operational Risk Events (OREs);**

Internal events are mapped to Basel II operational risk event categories. Information on operational risk event losses or gains exceeding \$10,000 is entered into a central database. Loss events are analysed to understand root cause and to identify improvements needed in order to reduce the recurrence and/or magnitude of future events.

- **Risk Control Self-Assessments (RCSAs);**

RCSAs are used to identify inherent risks associated with our business processes and include assessments of the risk and control environment. Gaps and action plans are tracked to completion for all controls that are assessed as “Less than Satisfactory” or “Needs Improvement”.

- **Key Risk Indicators (KRIs);**

KRIs allow BNYM SA/NV to monitor its operational risk profile and include measurable thresholds. KRIs monitor essential/critical aspects of the business processes, with management alerted when risk levels exceed the acceptable range.

- **Operational Risk Scenario Analysis**

Operational risk scenario analysis is used to forecast the most significant operational risks facing BNYM SA/NV by combining operational risk data with expert management judgement. Enhancements to the scenario analysis process started in autumn of 2014 and are to be further developed during 2015.

BNYM SA/NV also maintains a risk register which captures the most material risks associated with the business undertaken and the risk mitigants currently in place. Operational risk is amongst BNYM SA/NV’s material risks. The risk register is updated at least annually.

BNYM SA/NV uses a global platform for monitoring and reporting operational risk, the Risk Management Platform (RMP).

Monitoring and reporting of operational risks occur within the business, entity and EMEA-region risk oversight functions as well as decision-making forums such as business risk committees and BNYM SA/NV Risk Management Committee.

Current issues, emerging and top risks, adverse KRIs and OREs (>\$10,000) are reported to the BNYM SA/NV Risk Management Committee in Branch, Subsidiary and Head Office Risk Reports.

Regional Committees such as the EMEA Senior Risk Management Committee also monitor and incorporate the material risks of BNYM SA/NV in forming its regional risk assessment.

BNYM SA/NV uses comprehensive policies and procedures designed to provide a sound operational environment. The corporate operational risk policies were reviewed in 2014 and changes were applied across the organisation and adopted by all businesses including BNYM SA/NV. The main emphasis of the updates was to define and specify the Legal Entity Risk Officer's role and responsibilities.

In addition, a series of new operational risk procedures were developed to enhance the execution of the policies. The procedures define sustainable baseline standards to be applied across all business level operational risk functions including BNYM SA/NV.

BNYM SA/NV has risk managers assigned to oversee the activities undertaken in Brussels, each of the branches and subsidiary. Besides the operational risk function, other internal functions also ensure that processes are in place to support the sound operational risk management of the business e.g. Information Risk Management (IRM) and Business Continuity Planning.

#### **3.5.4.2 Capital Resource Requirement**

BNYM SA/NV calculates the Pillar 1 operational risk capital resource requirement under the Standardised Approach in accordance with Article IX.73 NBB circular 2007-1-CPB; it has been determined that BNYM SA/NV falls under the Agency Services Basel business line.

#### **3.5.5 Interest Rate Risk in Banking Book**

Interest rate risk (IRR) is the risk associated with changes in interest rates that affect net interest income (NII) and economic value (EV) on interest-earning assets and interest-paying liabilities. IRR exposure in the banking book arises from on and off-balance sheet assets and liabilities, and changes with movements in domestic and foreign interest rates.

Interest Rate Risk in the Banking Book (IRRBB) is composed of:

- Bank placements of a short-term nature. The maturity of cash placements (EUR, GBP and USD) with affiliated entities (BNY Mellon Group) range from overnight up to one month, while placements with external banks are typically overnight deposits or cash held on demand nostro balances.
- The bond portfolio (securities portfolio): the size and the risk profile are governed by BNYM SA/NV Belgium ALCO. The portfolio is operationally managed by Corporate Treasury and is used as liquidity buffer. The bond portfolio is not hedged for interest rate risk purposes.
- Client deposits (vostro balances): third party and affiliated deposits are mostly demand deposit accounts. Depending on the contract the rate paid on the deposits can either track an index, a market rate or a central bank rate, or the rate can be fixed by BNYM SA/NV.

#### **3.5.6 Credit Spread Risk**

Movements in spreads impact the economic value of the investment portfolio held by BNYM SA/NV. The bank's investment portfolio is accounted for under the available-for-sale banking book category. Given the accounting category, default risk is captured under Credit Risk but spread risk is not accounted for (as no Market Risk charge exists). The credit spread risk does not exclusively capture changes in the market perception of credit risk; it also covers other residual process risks not related to changes in the risk-free yield curve.

#### **3.5.7 Liquidity Risk**

BNYM 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, especially during periods of market stress, in order to meet its short-term (up to one year) obligations.

BNYM SA/NV defines Funding Liquidity Risk as the risk that it cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flow and collateral needs without adversely affecting daily operations or financial conditions. Liquidity risk can arise from funding mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputational risks also can affect BNY Mellon's liquidity risk profile and are considered in the liquidity Risk Management Framework.

BNYM SA/NV defines Intraday Liquidity Risk as the risk that it cannot access funding during the business day to make payments or settle immediate obligations, usually in real time, primarily due to disruptions or failures. The BNY Mellon Intraday Policy is specifically dedicated to managing these risks.

### **3.5.8 Compliance Risk**

Compliance risk may arise in situations where the laws or rules governing certain bank products or activities of clients may be ambiguous or untested. This risk exposes the institution to fines, civil money penalties, payment of damages and the voiding of contracts. From a strategic standpoint, it can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential and an inability to enforce contracts.

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

Compliance officers are present in Brussels, Frankfurt, Amsterdam, Dublin, Luxembourg and London. Subsidiaries are required to maintain a separate compliance function.

The key responsibilities of the Compliance Department are to ensure that BNYM SA/NV is aware of and complies with applicable regulations, to ensure adherence with new regulations and to manage all compliance matters such as Know Your Customer (KYC) and coordination of regulatory communications.

The Compliance Department is independent from any commercial or operational function of BNYM SA/NV. The Compliance Department directly reports into the BNYM SA/NV Chief Executive Officer and also reports into the RMC and the Risk Committee of BNYM SA/NV.

### **3.5.9 Business Risk**

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

As business risk is difficult to assess, it has been defined as the residual risks that confront the Bank, after taking all the known and quantifiable risks into consideration. In that respect, the revenues are analysed. During 2014, the revenues were impacted by the negative interest rate environment, while remaining positive.

### **3.5.10 Outsourcing Risk**

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

BNYM SA/NV uses outsourcing to support its daily business activities. However, while BNYM SA/NV can outsource the performance of a service and/or activity, it remains responsible for that service and/or activity. Moreover, failure by a service provider could have an adverse financial or reputational impact on BNYM SA/NV. Outsourcing can therefore present a business risk that BNYM SA/NV must manage to limit any potential impact on current or future earnings and/or capital. BNYM SA/NV is operationally dependent on its BNY Mellon Group affiliates who provide for a range of outsourced operations and support services. Intercompany outsourcing/intra-group monitoring agreements and Service Level Descriptions exist to ensure that BNYM SA/NV operations (including servicing of clients) are performed adequately/efficiently without major constraints.



Intragroup outsourcing is governed by the Banking Law of March 22, 1993 (Art. 20bis par. 4), the CBFA Regulation of June 5, 2007 (organizational rules applying to investment service providers (art. 17-22) and the following principles of sound management of outsourcing activities and operating processes as per the Circular.

While BNYM SA/NV outsources many functions, certain key activities must remain in house for the proper control and management of the company. BNYM SA/NV has implemented an outsourcing oversight policy which provides a risk based approach to determine the appropriate method and frequency of oversight.

### **3.5.11 Concentration Risk**

Concentration risk means exposure(s) or event(s) that may arise within or across different risk categories throughout an institution with the potential to produce: (i) losses large enough to threaten the institution's health or ability to maintain its core operations; or (ii) a material change in an institution's risk profile. BNYM SA/NV manages concentration risk in accordance with the CEBS guidelines on the management of concentration risk under the supervisory review process (GL31).

The following types of concentration risk apply to BNYM SA/NV

- Credit concentration
- Market concentration risk
- Market liquidity risk
- Operational / Outsourcing risk concentration

#### **3.5.11.1 Credit Concentration Risk**

Credit concentration risk results from concentration of exposures to a single counterparty, borrower or group of connected counterparties or borrowers. This includes on- and off-balance sheet exposures. The risk of credit concentrations is controlled and managed according to client/counterparty as opposed to geographical region or by industry. 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 are diversified across a number of banks and geographic locations.

BNYM SA/NV has set in place a monitoring of the large exposures in line with Part four of the CRR.

#### **3.5.11.2 Operational / Outsourcing Concentration Risk**

A number of systems and processes adopted by BNYM SA/NV are reliant on BNY Mellon for delivery. These include outsourced activities such as IT systems and support functions. Business Continuity Plans are in place in order to ensure the continuity of the activities in case of events or disruptions.

#### **3.5.11.3 Market Concentration Risk**

Market concentration risk can arise either from exposures to a single risk factor or exposures to multiple factors which are correlated. As BNYM SA/NV does not have a trading portfolio, sources of market risk are limited to currency risk (long and short foreign exchange positions) due to revenue flows in different currencies. Apart from this there is interest rate risk in the non-trading book USD and GBP are the 2 most important currencies as BNYM SA/NV's major non-Euro trade is in these currencies.

### **3.5.12 Group Risk**

Group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group, for example reputation contagion or parent default.

As part of a large complex and interconnected company, BNYM SA/NV sets its business strategy in line to the overall strategy Framework. BNYM SA/NV relies on the Group for the provision of systems and support services.

### **3.5.13 Legal Risk**

Legal risk is the risk associated with a breach of contract, law, regulation and legal duties. This risk may trigger an increased liability of the company vis-à-vis clients, administrative and criminal sanctions, litigation and ultimately reputation damage and financial loss. BNYM SA/NV reduces its legal risk through strict policies and procedures defined to ensure contractual obligations are fulfilled, legal formalities are completed, and to minimise the risk of legal action; and through dedicated internal counsel and the use of external counsel.

### **3.5.14 Model Risk**

Model risk refers to the possibility of unintended business outcomes arising from the design, implementation or use of models. It includes the potential risk that management makes incorrect decisions based either upon incorrect model results, or incorrect understanding and use of model results.

The models used by BNYM SA/NV are subject to BNY Mellon's model risk management process, which includes model inventory/validation and the model risk assessment process.

Model risk can result in material financial loss, inaccurate financial or regulatory reporting, misaligned business strategies or damage to BNYM SA/NV or BNY Mellon as a whole's reputation.

Both internally developed (spreadsheets, computer programs and analytical tools) and externally purchased vendor models are subject to the same definition and requirements.

Where computational processes do not meet the definition of a model, they are still subject to controls around input, output, calculation and implementation risk. These computational tools may also support critical processes and therefore should be subject to the applicable controls embedded in policies within the appropriate functions including Finance, Accounting and Risk Management.

### **3.5.15 Pension Obligation Risk**

Pension Obligation Risk is the risk to a firm caused by its contractual liabilities or legal obligation to its staff pension schemes.

BNYM SA/NV has eight pension plans, three are defined contribution and five are defined benefit plans. Only the defined benefit plans may result in a risk for BNYM SA/NV to make-up any shortfall in the fund guarantees a pensionable amount based on staff members salary, whereas the defined contribution plans do not provide any guarantee.

### **3.5.16 Reputation Risk**

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

Sources of reputation risk (e.g. business lines, affiliated operations or off-balance sheet activities, as well as legal issues or employee misconduct) are mainly driven at the level of the BNY Mellon and therefore represent an indirect source of risk for BNYM SA/NV. This risk is considered as a secondary effect and is included as such in Operational Risk scenarios and in stress testing.

### **3.5.17 Strategic Risk**

Strategic risk is defined as the risk of direct or indirect loss arising from the adverse effects or the improper implementation of business decisions. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation.

BNYM SA/NV relies on robust governance processes to monitor and/or mitigate strategic risk. BNYM SA/NV maintains an integrated Enterprise Risk Management Framework to ensure that risks inherent in its business

activities are identified, measured, managed and monitored and adequate business acceptance controls and mitigation exist.

BNYM SA/NV manages a network of sub-custodians and also facilitates the expansion of BNY Mellon into other European countries through the establishment of a network of branches and cross-border delivery of services, and bears risk in accordance to this strategy.

### **3.5.18 Settlement Risk**

Settlement risk is the probability of loss arising from the failure of one counterparty to settle its side of a transaction, thus preventing other counterparties from settling their commitments. It arises usually when payments are not exchanged simultaneously. This risk is monitored for the transactions pertaining to the securities portfolio.

### **3.5.19 Non-trading book exposures in equities**

BNYM SA/NV did not have any non-trading book exposures in equities as at December 31, 2014.

### **3.5.20 Securitisation Risk**

Securitisation risk is the risk that the capital resources held in respect of assets which it has securitized is not adequate.

As at December 31, 2014, BNYM SA/NV did not have any securitized assets.

## **3.6 Continuous improvements**

As a professional entity, BNYM SA/NV is continuously improving systems, processes and models. All the findings from Internal and External Auditors and from the Supervisory Authorities are duly considered.

## 4 Capital Resources

### 4.1 Available Capital Resources

Table 7 summarises the capital resources for BNYM SA/NV at consolidated level, as reported to the NBB as at December 31, 2014.

Information about capital terms and conditions are also set out in the Company's Annual Report and Accounts 2014.

**Table 7: Capital resources**

As at 31 December Capital Resources (€000s)	BNYM SA/NV	
	2014	2013
<b>Tier 1 Capital</b>	-	-
Called up Share Capital	1,541,987	1,552,212
Retained Earnings and other Reserves	798,499	630,261
Other and country specific original own funds		345,500
<b>Total Tier 1 Capital</b>	<b>2,340,486</b>	<b>2,527,973</b>
<b>Deductions from Tier 1 Capital</b>		
Intangible Assets	(566,269)	(585,430)
<b>Total Tier 1 Capital after deductions</b>	<b>1,774,217</b>	<b>1,942,543</b>
<b>Tier 2 Capital</b>		
Dated subordinated debt	345,500	
<b>Total Tier 2 Capital</b>	<b>345,500</b>	<b>-</b>
<b>Deductions from total of tiers 1 and 2 capital</b>		
Connected lending of a capital nature		
<b>Total Deductions from total of tiers 1 and 2 capital</b>	<b>-</b>	<b>-</b>
<b>Total Capital Resources</b>	<b>2,119,717</b>	<b>1,942,543</b>

## 4.2 Reconciliation between own funds from regulatory disclosure and equity from financial statements

Table 8: Reconciliation between equity and regulatory capital

As at 31 December 2014	Amounts as reported in published financial statements	Amounts under regulatory scope
<b>Own funds</b>		
<b>Tier 1 Capital</b>		
Called up Share Capital	1,541,987	1,541,987
Retained Earnings and other Reserves	726,100	638,355
Results brought forward	160,143	160,143
<b>Total Tier 1 Capital</b>	<b>2,428,231</b>	<b>2,340,486</b>
<b>Deductions from Tier 1 Capital</b>		
Intangible Assets	(581,448)	(566,269)
Adjustment to other valuation differences affecting the eligible reserve		
<b>Total Tier 1 Capital after deductions</b>	<b>1,846,783</b>	<b>1,774,217</b>
<b>Tier 2 Capital</b>		
Dated subordinated debt	345,500	345,500
<b>Total Tier 2 Capital</b>	<b>345,500</b>	<b>345,500</b>
<b>Deductions from total of tiers 1 and 2 capital</b>		
Connected lending of a capital nature		
<b>Total Deductions from total of tiers 1 and 2 capital</b>	<b>0</b>	<b>0</b>
<b>Total Capital Resources</b>	<b>2,192,283</b>	<b>2,119,717</b>

## 4.3 Description of the main features of own funds

Table 9 presents the detailed shareholding structure of BNYM SA/NV, consisting of ordinary shares held by The Bank of New York Mellon and by BNY International Financing Corporation.

Table 9: Shareholding Structure

Shareholder	Type	Number of shares	Issue Price	Capital amount	Nominal amount	%
BNY Mellon	Ordinary shares	1,544,765	976.6	1,508,653,086	1,508,653,086	99.9999%
BNY IFC	Ordinary shares	1	976.6	977	977	0.0001%

## 4.4 Risk Weighted Assets

Table 10 summarises the Risk Weighted Assets (RWAs) for BNYM SA/NV by risk type.

Table 10: Risk Weighted Assets

As at 31 December Risk Weighted Assets (RWAs) by risk type (€000s)	BNYM SA/NV	
	2014	2013
Credit Risk	5,298,315	9,709,025
Operational Risk	1,041,031	1,036,638
Market Risk	251,481	154,988
CVA Risk	58,120	
<b>Total RWAs</b>	<b>6,648,947</b>	<b>10,900,650</b>

## 5 Capital Requirements

Table 11 details the Pillar 1 capital requirements by exposure class and the associated capital surplus and capital adequacy ratio for BNYM SA/NV as at December 31, 2014.

**Table 11: Capital requirements by risk type**

As at 31 December Capital Requirements and Adequacy (€000s)	BNYM SA/NV	
	2014	2013
<b>Credit Risk Standardised Approach</b>		
Central Governments and Central Banks	-	-
Institutions	251,606	11,393
Corporates	150,269	199
Short term claims on Institutions and Corporates		741,636
Publis sector entities	1	
Collective Investment Undertakings		29
Other	21,990	23,465
<b>Total Credit Risk capital requirement</b>	<b>423,865</b>	<b>776,722</b>
<b>Operational Risk - standardised approach</b>	<b>83,282</b>	<b>82,931</b>
<b>CVA Risk</b>	<b>4,650</b>	
<b>Market Risk</b>		
Foreign currency Position Risk Requirement	20,118	12,399
<b>Total Market Risk capital requirement</b>	<b>20,118</b>	<b>12,399</b>
<b>Total Pillar 1 Capital Requirements</b>	<b>531,916</b>	<b>872,052</b>
<b>Total Capital Resources</b>	<b>2,119,717</b>	<b>1,942,542</b>
<b>Capital surplus</b>	<b>1,587,801</b>	<b>1,070,490</b>
<b>Total Capital Resources / Total Pillar 1 Capital Requirements</b>	<b>31.9%</b>	<b>17.8%</b>
<b>Leverage Ratio</b>	<b>3.7%</b>	<b>N/A</b>

The leverage ratio was computed for the first time at end December 2014.

## 6 Asset encumbrance

Part of the available for sale debt instruments portfolio in the total amount of € 179 Million 2013: € 246 Million is used to support activity in Germany, mainly to provide collateral for the derivatives clearing activity at Eurex and to collateralize client cash deposits with BNY Mellon that are above the deposit insurance ceiling.

As of December 31, 2014 the carrying value and fair value of encumbered assets by type of assets were as in Table 12.

**Table 12: Carrying and fair value by type of assets**

<b>Assets</b>	<b>Carrying amount of encumbered assets</b> (€000s)	<b>Fair value of encumbered assets</b> (€000s)	<b>Carrying amount of unencumbered assets</b> (€000s)
Equity instruments	-	-	-
Debt securities	178,943	178,943	13,166,177
Other assets	195,209	195,209	21,241,613
<b>Total</b>	<b>374,152</b>	<b>374,152</b>	<b>34,407,790</b>

The carrying amount of the debt securities is the fair value of these financial instruments. Other assets encumbered refer to monetary reserves, mainly placed with National Bank of Belgium, treated as encumbered assets as these cannot be not freely withdrawn to the bank.

Collateral received refers to collateral received from derivatives clearing and securities lending activities. This collateral consists of highly rated equity instruments, fixed income securities and cash. None of this collateral is available for BNYM SA/NV's own use. Therefore, there is no reportable encumbered collateral received, or available for encumbrance.

**Table 13: Encumbered assets/collateral received and associated liabilities**

<b>Carrying amount of financial liabilities</b>	<b>Matching liabilities, contingent liabilities or securities lent</b> (€000s)	<b>Assets, collateral received and own ebt securities issued</b> (€000s)
Derivatives (options and futures)	216,722	178,943
Other sources of encumbrance	-	195,209

BNYM SA/NV has no own debt securities issued. Other sources of encumbrance refer to the monetary reserves at central banks.

## **7 Remuneration Disclosure**

### **7.1 Governance**

The Board of The Bank of New York Mellon SA/NV (“BNYM SA/NV”) is responsible for the remuneration policy statement and its application. The Remuneration Committee (“Rem Co”) of the Board reviews the remuneration policy statement annually in light of the risk appetite, the values and long term interests of BNYM SA/NV, as well as the applicable laws and regulations. The Rem Co also reviews annually the variable compensation awards of all staff that have a material impact on the risk profile of BNYM SA/NV, before submitting the proposals to the Board (in session with the non-executive directors only) for approval.

All voting Rem Co members are non-executive directors of the Board. The Human Resources function provides the Rem Co secretarial duties.

The Rem Co is assisted in its task by BNY Mellon’s EMEA Remuneration Governance Committee (“ERGC”) which was set-up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon’s EMEA businesses, including BNYM SA/NV. Remuneration policy decisions of BNYM SA/NV including its branches and subsidiaries rest however with the Board, which meets at least quarterly and also approves the year-end compensation awards of its regulated staff members. The Rem Co met five times during 2014. Deferred awards in BK shares or Restricted Share Units also require the approval of the Human Resources and Compensation Committee (HRCC) of BNY Mellon, since it functions as the remuneration committee of the ultimate shareholder of BNYM SA/NV.

In the course of 2014, the remuneration policy statement was amended to reflect the new provisions contained in CRD IV, the EBA guidelines, and the remuneration provisions of the Belgian Banking law of 25 April 2014.

### **7.2 Aligning pay with performance**

BNY Mellon’s compensation philosophy, which is an integral part of BNYM SA/NV’s remuneration policy statement, is to offer a total compensation opportunity that supports BNY Mellon’s values: client focus, integrity, teamwork and excellence. In support of this philosophy, variable compensation is regularly used as a means of recognising performance.

The compensation philosophy and principles align the interests of employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value, by rewarding success and by ensuring that the incentive compensation arrangements do not encourage employees to take unnecessary and excessive risks that threaten the value of BNY Mellon or benefit individual employees at the expense of shareholders or other stakeholders. The compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. The aim is to ensure that both fixed and variable compensation are consistent with business and market practice, fixed compensation is sufficient to provide for a fully flexible variable compensation program, and variable compensation is in the form of annual and/or long-term incentives, where appropriate.

### **7.3 Remuneration components: Fixed remuneration**

Fixed remuneration is composed of (i) salary, (ii) any additional non-performance related amounts paid as a result of contractual obligations or applicable law, or as a result of market practice, including role based allowances that reflect the potential risk impact of the job holder on the risk profile of BNYM SA/NV, and (iii) any benefits in kind which are awarded as a result of the job rather than the performance within the job.

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

Employees, who have accepted to be a director of BNYM SA/NV or its subsidiary, are not remunerated for their mandate as a director. Independent directors of BNYM SA/NV only receive fixed remuneration.



## **7.4 Variable compensation funding and risk adjustment**

The criteria for determining variable compensation reflect individual, business line and corporate performance, as applicable, and are determined on the basis of financial and non-financial factors, both currently and over a longer period of time.

The staff of BNYM SA/NV are eligible to be awarded variable compensation. Such variable compensation consists of both cash and deferred components.

BNYM SA/NV makes use of the robust performance appraisal system in place at BNY Mellon to document an individual's performance. This contains not only agreed and individualized business goals, but also a compulsory risk management goal and a compliance and ethics goal. The behaviour of previously identified staff members with regard to risk was in 2014 also for the first time evaluated through a risk culture summary scorecard, detailing any issues related to risk, compliance or audit issues.

## **7.5 Ratio between fixed and variable remuneration**

Material Risk Takers of BNYM SA/NV are restricted to a maximum variable remuneration of the greater of €50,000, or 50% of fixed remuneration, in line with the Belgian Banking Law.

## **7.6 Deferral policy and vesting criteria**

For more senior-level employees, a portion of variable compensation will be deferred, under ordinary circumstances for a period of at least three years (albeit such compensation may be deferred on a pro rata basis for alternative periods), and will be subject to the performance of either (or both) the company or the respective business. The deferred component of the variable compensation award is generally delivered as restricted stock units whose value is tied to The Bank of New York Mellon Corporation, Inc.'s share price. The percentage of the variable compensation award to be deferred depends on the level of the position, regulatory requirements and the amount of the award. For regulated staff, the variable compensation portion of an award is broken out in four different parts: upfront cash, upfront equity, deferred cash and deferred equity, in order to comply with local regulations. All such deferred awards are subject to terms and conditions that provide for forfeiture or clawback in certain circumstances.

## **7.7 Variable remuneration of control function staff**

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

## **7.8 Quantitative Remuneration Disclosure**

The tables below provide details of the aggregate remuneration of Material Risk Takers for BNYM SA/NV for the year ending 31 December 2014.

For completeness, this group of staff is limited to those considered to be primarily regulated due to their activities under BNYM SA/NV. The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of BNYM SA/NV, to reflect the full reporting period.

**Table 14: Aggregate remuneration expenditure for Material Risk Takers in 2014 by business (€000s)**

	Investment Services	Other <sup>(**)</sup>	Total
Total Remuneration <sup>(*)</sup>	8,834	7,598	16,432

(\*) Includes base salary and other cash allowances, plus any cash incentive and the total of any deferred awards made in BNY Mellon shares valued at the date of grant, or deferred cash.

(\*\*) Includes all support functions and general management positions.

**Table 15: Aggregate remuneration expenditure for Material Risk Takers relating to 2014 by remuneration type (€000s)**

	Senior Management <sup>(*)</sup>	Other Material Risk Takers	Total
Number of beneficiaries	36	35	71
	€000s	€000s	€000s
Fixed Remuneration <sup>(**)</sup>	8,319	4,402	12,721
Variable Remuneration	2,461	1,250	3,711
Cash	1,243	935	2,178
Shares	1,218	315	1,533
Share-linked instruments	-	-	-
Other	-	-	-

(\*) Senior Management is comprised of MRTs identified under Article 3.3 of the EBA RTS for identifying MRTs. Consisting of employees registered with the NBB as persons who assume responsibility at the highest level of the financial institution, management/executive committee members, directors, heads of independent control functions and senior managers of the financial institution.

(\*\*) Fixed Remuneration includes base salary and any cash allowances.

**Table 16: Outstanding aggregate deferred remuneration for Material Risk Takers paid in 2014**

	# of Shares/Units
Unvested as of December 31, 2013 <sup>(*)</sup>	530,829
Awarded during the financial year <sup>(**)</sup>	74,436
Vested during the financial year <sup>(***)</sup>	213,371
Lapsed	13,679
Outstanding as of December 31, 2014	378,215

(\*) Number of options or RSUs.

(\*\*) Awarded in February 2014 in relation to the 2013 performance year.

(\*\*\*) Includes the vesting of restricted stock units and the exercise of options.

**Table 17: Aggregate sign-on, buy-out and severance payments for Material Risk Takers in 2014**

	€000s
Sign-on payments	-
Number of beneficiaries	-
Buy-out payments	-
Number of beneficiaries	-
Severance payments	726
Number of beneficiaries	3
Highest award to a single person	294

Other employees who could be considered to be Material Risk Takers for 2014 for some of their activities under BNYM SA/NV and its branches, but who are primarily regulated in respect of a different entity have been excluded from the data displayed in the tables above. These remuneration expenditures are included on an aggregate basis in the Pillar 3 remuneration disclosures for the respective BNY Mellon legal entities.

## 8 Glossary of Terms

The following terms are used in this document:

- **ALCO:** Asset and Liability Committee.
- **AMA:** Advanced Measurement Approach under the Basel II Operational risk.
- **Basel II:** The June 2006 capital adequacy framework issued by the Basel Committee on Banking Supervision in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
- **BNY Mellon:** The Bank of New York Mellon.
- **BNYM SA/NV:** The Bank of New York Mellon SA/NV, established in Brussels.
- **BNY IFC:** BNY International Financing Corporation, incorporated in the USA.
- **CCR:** Counterparty Credit Risk.
- **CRD:** Capital Requirements Directive.
- **Credit and Operational Risk Management Committee (CORMC):** CORMC approves the credit and operational risk methodologies and assumptions that do not require review by the Risk Quantification Committee.
- **Credit risk mitigation (CRM):** A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.
- **Compensation Oversight Committee (COC):** monitors the company's compensation plan and advise the HRCC on any remuneration risk-related issues.
- **CSTC:** Capital and Stress Testing Committee.
- **Derivatives:** A derivative is a financial instrument that derives its value from one or more underlying assets, for example bonds or currencies.
- **EMEA Remuneration Governance Committee (ERGC):** was set-up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses.
- **Exposure:** A claim, contingent claim or position which carries a risk of financial loss.
- **Exposure at default (EAD):** The amount expected to be outstanding, after any credit risk mitigation, if and when counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures.
- **GAAP:** Generally Accepted Accounting Principles.
- **High Level Assessment (HLA):** An assessment of the quality of controls in place to mitigate risk and residual risk. Residual risk is assessed as High, Moderate to High, Moderate, Moderate to Low and Low with direction anticipated.
- **Human Resources and Compensation Committee (HRCC):** oversees BNY Mellon's enterprise-wide employee compensation and benefit policies and programs.
- **Institutions:** Under the Standardised approach, Institutions are classified as credit institutions or investment firms.
- **Internal Capital Adequacy Assessment Process (ICAAP):** The entity's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
- **IRR:** Interest Rate Risk and **IRRBB:** Interest Rate Risk on the Banking Book.
- **Key Risk Indicator (KRI):** Key Risk Indicator are used by business lines to evaluate control effectiveness and residual risk within a business process.
- **Material Risk Taker (MRT):** Material Risk Taker as defined by the European Banking Authority Final Regulatory Technical Standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU ("CRD IV").
- **Residual maturity:** The period outstanding from the reporting date to the maturity or end date of an exposure.

- **Risk appetite:** A definition of the types and quantum of risks to which the firm wishes to be exposed.
- **Risk and Control Self-Assessment (RCSA):** Risk and Control Self-Assessment is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls.
- **Risk Governance Framework:** The BNYM SA/NV risk governance framework has been developed in conjunction with BNY Mellon requirements. Key elements of the framework are:
  - Formal governance committees, with mandates and attendees defined
  - Clearly defined escalation processes, both informally (management lines) and formally (governance committees, board, etc.)
  - A clear BAU process for identification, management and control of risks
  - Regular reporting of risk issues.
- **RMC:** Risk Management Committee which meets on a monthly basis 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 Committee also plays a central role in ensuring that material change that has the potential to affect the SA/NV is identified in a timely manner and managed in an appropriate fashion.
- **SIFI:** A systemically important financial institution is a bank, insurance company, or other financial institution whose failure might have economically significant spill-over effects which, if left unchecked, could destabilize the financial system and have a negative impact on the real economy.
- **SREP:** The key purpose of the Supervisory Review and Evaluation Process is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of their risks, to which they are or might be exposed, including those revealed by stress testing and risks institution may pose to the financial system.
- **Standardised approach:** In relation to credit risk, a method for calculating credit risk capital requirements using external credit assessment institution ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines. In relation to market risk, a method calculating 8% of the greater of the net long and net short foreign exchange positions.

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