BNY MELLON

THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED

Pillar 3 Disclosure

December 31, 2017

Contents


BNY MELLON

Index of Tables

Any discrepancies between the totals and sums of components within the tables and graphs within this report are as a result of roundings.

Appendices

1 Scope of application

1.1 Disclosure policy

This document comprises The Bank of New York Mellon (International) Limited (BNYMIL or the Company) Pillar 3 disclosures on capital and risk management at 31 December 2017. These Pillar 3 disclosures are published in accordance with the requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), referred to together as CRD IV, which came into effect on 1 January 2014. CRD IV has the effect of implementing the international Basel III reforms of the Basel Committee on Banking Supervision within the European Union. The Pillar 3 disclosure requirements are contained in Part Eight of the CRR, in particular articles 431 to 455.

Pillar 3 disclosures are required for a consolidated group and for those parts of the group covered by CRD IV. When assessing the appropriateness of these disclosures in the application of Article 431(3) in the CRR, BNYMIL has ensured adherence to the following principles of:

- Clarity
- Meaningfulness
- Consistency over time
- Comparability across institutions

The Basel Committee on Banking Supervision (BCBS) requires these disclosures to be published at the highest level of consolidation. BNYMIL has adopted this approach with information presented at a fully consolidated and solo level where appropriate.

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

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

In line with Article 13(1) CRR, BNYMIL is required to disclose information to the extent applicable in respect of Own Funds, Capital Requirements, Capital Buffers, Credit Risk Adjustments, Remuneration Policy and Leverage at a consolidated and solo level. The following Key Metrics, Own Funds, Capital Buffers and Remuneration Policy information are presented on a consolidated and solo basis for BNYMIL. There is no material difference in the risk profile between solo and consolidated and therefore Capital Requirements and Credit Risk Adjustments information is only shown at the consolidated level.

The following risk metrics present BNYMIL's key risk components as at 31 December 2017. Please see page 11 for the full comprehensive list of capital ratios.

	Consolidated	Solo
Common Equity Tier 1 ratio	47.8%	50.8%
	2016: 51.9%	2016: 53.9%
Common Equity Tier 1 capital	£448m	£448m
	2016: £412m	2016: £412m
Total risk-weighted assets	£936m	£881m
	2016: £793m	2016: £765m
Basel III leverage ratio	4.5%	4.5%
(This ratio is for information only. BNYMIL is not subject to a binding leverage requirement)	2016: 6.1%	2016: 5.9%

1.2 The Basel III framework

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 through the Capital Requirements Directive (CRD) and establishes a more risk sensitive approach to capital management. It is comprised of three pillars:

Pillar 1 - Minimum capital requirement:

Establishes rules for the calculation of minimum capital for credit risk, counterparty credit risk, market risk and operational risk and capital resources requirements

Pillar 2 - Supervisory review process:

Requires firms and supervisors to undertake an internal capital adequacy assessment process to determine whether the financial institution needs to hold additional capital against risks not adequately covered in Pillar 1 and to take action accordingly

Pillar 3 - Market discipline:

Complements the other two pillars and effects market discipline through public disclosure showing an institution's risk management policies, approach to capital management, capital resources and an analysis of its credit risk exposures

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content.

1.3 Purpose of Pillar 3

Pillar 3 requires the external publication of exposures and associated risk weighted assets and the approach to calculating capital requirements for the following risk and exposure types:

- Credit risk
- Counterparty credit risk
- Market risk
- Credit valuation risk
- Securitisation risk
- Operational risk

These Pillar 3 disclosures focus only on those risk and exposure types relevant to BNYMIL.

BNYMIL includes both quantitative and qualitative disclosures to show the relevant information and describe its approach to capital management, its capital resources and an analysis of its credit risk exposures. The disclosures also include, where appropriate, comparative figures for the prior year and an analysis of the more significant movements to provide greater insight into its approach to risk management.

1.4 Non-material, proprietary or confidential information

In accordance with CRD IV, 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 BNYMIL 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.

Furthermore, the Board may omit one or more disclosures if the information provided is regarded as proprietary or confidential. Information is regarded as proprietary if disclosing it publicly would undermine the competitive position of a company. It may include information on products or systems which, if shared with competitors, would render an institution's investment therein less valuable. In such circumstance, the Board will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure. In addition it will publish more general information about the subject matter of the disclosure requirement except where this is classified as confidential.

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

1.5 Frequency and means of disclosure

Disclosure will be made annually based on calendar year end and will be published in conjunction with the preparation of the Annual Report and Financial Statements. BNYMIL 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.

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

Disclosures are published on The Bank of New York Mellon Corporation group website:

BNY Mellon Investor Relations - Pillar 3

1.6 Board approval

These disclosures were approved for publication by BNYMIL's Board of Directors on 17 April 2018. The Board has verified that the disclosures are consistent with formal policies adopted regarding production and validation and are satisfied with the adequacy and effectiveness of the risk management arrangements.

1.7 Key 2017 and subsequent events

The Board of Directors periodically reviews the strategy of the Company and the associated products and services it provides to clients. This generally takes place during the first quarter of each year following the yearly refresh of the legal entity strategy.

In relation to the assessment and monitoring of economic, political and regulatory risks, the Company is continuing to evaluate the impact of the outcome of the recent referendum in relation to the UK's membership of the EU on business strategy and business risks in the short, medium and long term.

The Luxembourg branch of BNYMIL (BNYMIL Lux) acts as a depositary to Luxembourg domiciled Alternative Investment Funds (AIFs) and Undertakings for Collective Investment in Transferable Securities (UCITS) funds. BNYMIL Lux does not have a separate banking licence in Luxembourg. The ability for it to perform depositary activities is via its European passport granted under the 2nd Banking Consolidation Directive. Luxembourg product rules as set out in the relevant UCITS law (similar rules apply for AIF Managers Directive) require that the depositary must either be a Luxembourg credit institution or be the branch of another EU credit institution.

Based on the law as at today's date, a branch of a credit institution which has its registered office in a third country may not act as a depositary to a UCITS/AIF in Luxembourg. As such under a Hard Brexit, BNYMIL Lux will not meet the eligibility requirements for the clients within that branch.

The loss of the depositary licence for BNYMIL Lux and the inability to regain it after Brexit will prevent BNYMIL from being able to continue servicing its Asset Servicing clients in a post-Brexit environment, assuming a Hard Brexit scenario. As a result, clients have been advised of this situation.

As a solution it is proposed to migrate clients' business to the Luxembourg branch of the European Bank (subject to the relevant approvals by the European Bank), which currently possesses the required licences, permissions and business functionality to absorb these clients.

While the majority of business currently conducted from BNYMIL Lux is expected to migrate to the Luxembourg branch of SA/NV 'European Bank'[1], some fiduciary services for debt issuer clients will continue to be performed in BNYMIL Lux. The Company is exploring options for these clients and the Luxembourg branch.

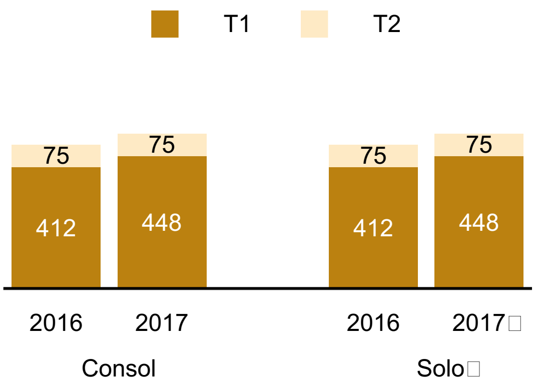
The Company will continue to closely monitor developments and will make appropriate changes to the business strategy once the impact of the referendum result on the UK and European financial services industry is more certain.

[1] Please refer to figure 2: the Three Bank Model on page 14 for further information on SA/NV 'European Bank'

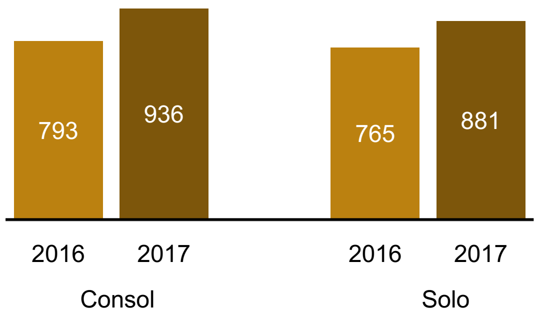
1.8 Key metrics

The following risk metrics reflect BNYMIL's risk profile:

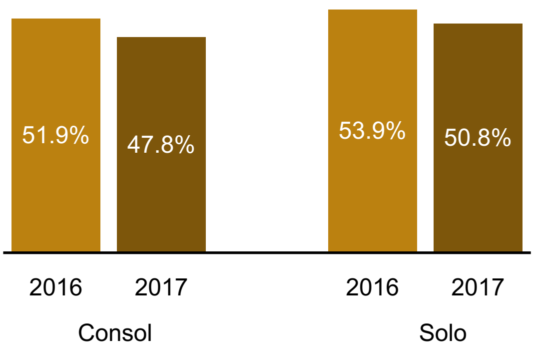
Regulatory Capital (£m)



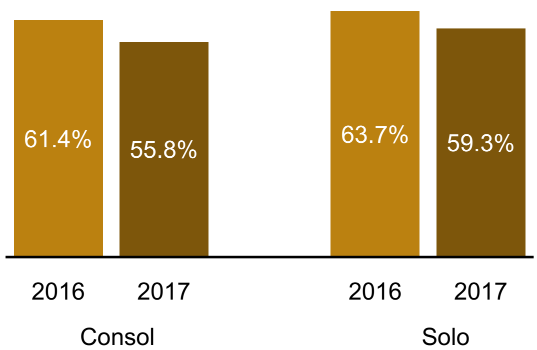
Risk Weighted Assets (£m)



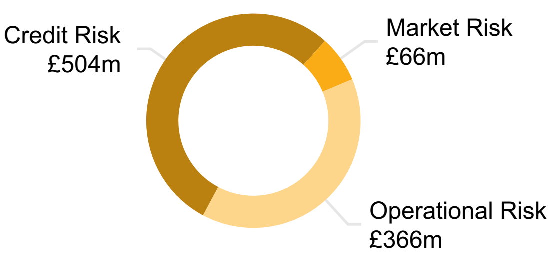
CET1 Ratio Trend



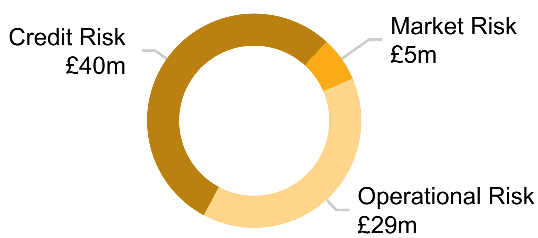
Total Capital Ratio Trend



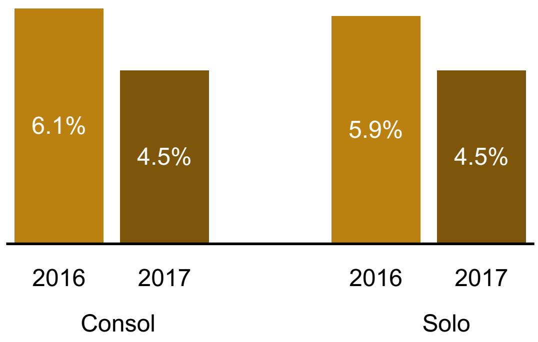
Risk Exposure Amount by Risk Type (£936m) Consolidated 2017



Capital Requirements by Risk Type (£75m) Consolidated 2017



Leverage Ratio Trend



NSFR Trend

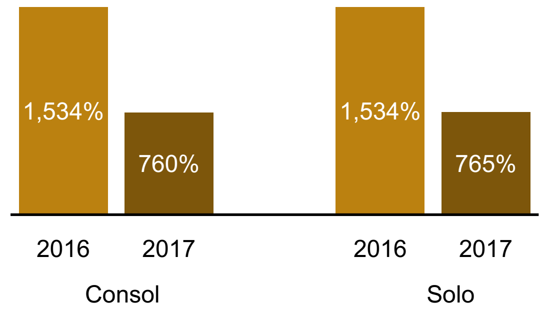


Table 1: Capital ratios

	Consolidated		Solo	
Own Funds	**2017**	**2016**	**2017**	**2016**
Available capital (£m)[1]				
Common Equity Tier 1 (CET1) capital	448	412	448	412
Tier 1 capital	448	412	448	412
Tier 2 capital	75	75	75	75
Total capital	523	487	523	487
Risk-weighted assets (£m)[2]				
Total risk-weighted assets (RWA)	936	793	881	765
Risk-based capital ratios as a percentage of RWA				
CET1 ratio	47.8%	51.9%	50.8%	53.9%
Tier 1 ratio	47.8%	51.9%	50.8%	53.9%
Total capital ratio	55.8%	61.4%	59.3%	63.7%
Additional CET1 buffers requirements as a percentage of RWA				
Capital conservation buffer requirement	1.25%	0.63%	1.25%	0.63%
CET1 available to meet buffers after meeting the bank's minimum capital requirements, and, if applicable, TLAC[3] requirements	36.0%	39.8%	46.3%	47.3%
Basel III leverage ratio				
Total Basel III leverage ratio exposure measure (£m)	9,975	6,805	9,975	6,925
Basel III leverage ratio	4.5%	6.1%	4.5%	5.9%
Liquidity Coverage Ratio (LCR)				
Total HQLA (£m)	7,509	4,840	7,509	4,840
Total Net Cash Outflow (£m)	2,556	1,451	2,556	1,451
LCR	294%	334%	294%	334%
Net Stable Funding Ratio (NSFR)[4]				
Total Available Stable Funding (£m)	3,553	2,314	3,577	2,314
Total Required Stable Funding (£m)	468	151	468	151
NSFR	760%	1,534%	765%	1,534%

[1] 2017 capital as stated is after the inclusion of audited profits for the year.
[2] 2017 RWAs include the latest operational risk RWAs, updated in line with the audited results for the year.
[3] TLAC: Total Loss-Absorbing Capacity.
[4] BNYMIL is not subject to a binding NSFR requirement.

Thus the common equity tier 1, total tier 1 and total capital ratios remain in excess of the minimum regulatory requirement of 4.5%, 6.0% and 8.0% respectively.

1.9 Company description

BNY Mellon Group (BNY Mellon) is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As at 31 December 2017, BNY Mellon had $33.3 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.

BNYMIL is a private limited company incorporated in the UK. As at 31 December 2017, BNYMIL had £551 billion in assets under custody, which increased from £522 billion at 31 December 2016. The increase of £29 billion was achieved through a combination of new business, growth in equity markets and the transfer of UK Trust and Depositary related custody clients into BNYMIL from other group entities.

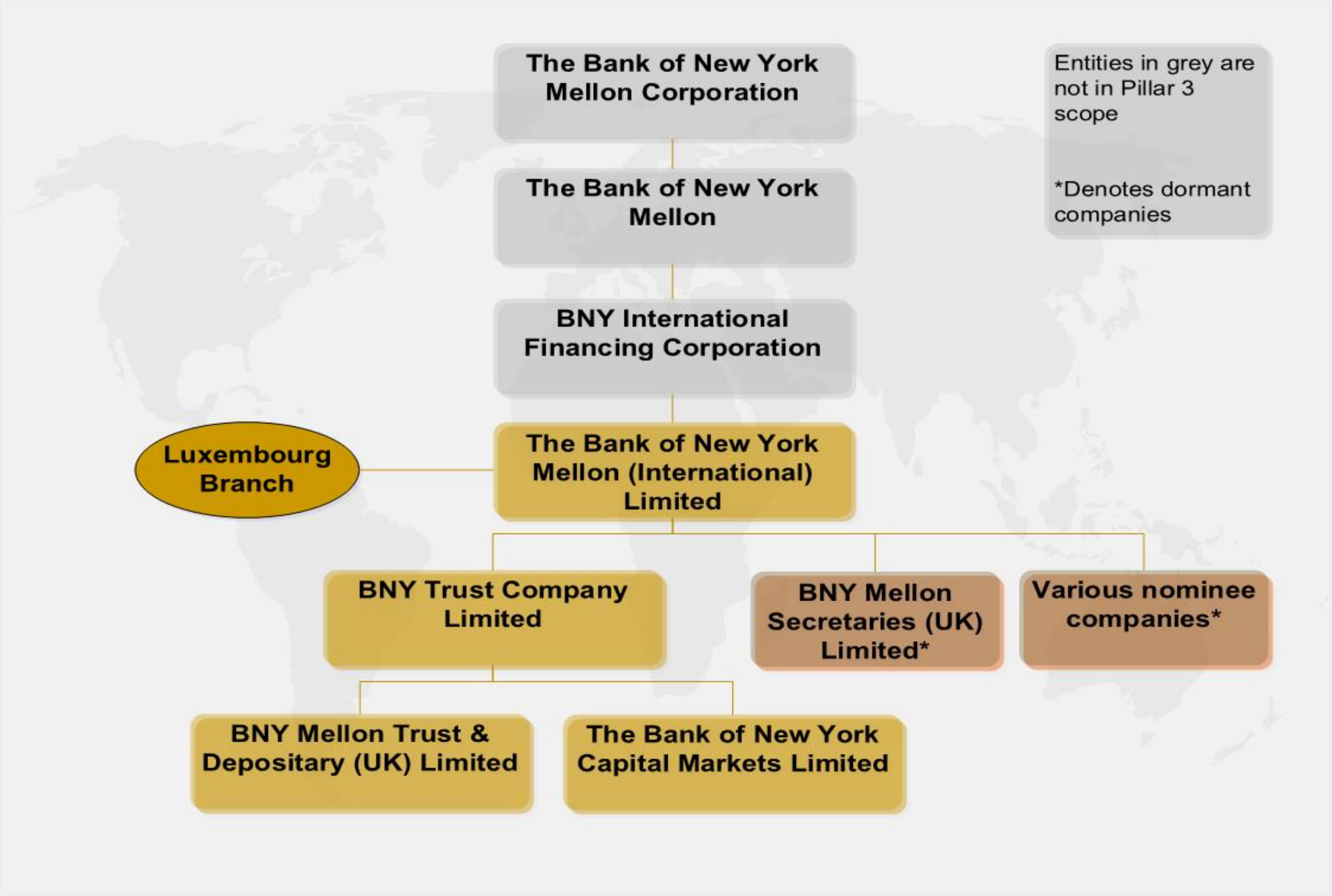
BNYMIL is a wholly-owned subsidiary of BNY International Financing Corporation (BNYIFC), a holding company with investments in banking and non-banking entities. BNYIFC is a wholly-owned US-regulated subsidiary of The Bank of New York Mellon, the main banking entity of BNY Mellon. BNYMIL is regulated by the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA).

BNYMIL is the ultimate parent of BNY Mellon Trust & Depositary (UK) Limited and BNY Trust Company Limited, its main subsidiaries, and through the former provides trustee services principally in the UK to both authorised and unauthorised collective investment schemes. BNY Mellon Trust and Depositary (UK) Limited and BNY Trust Company Limited are both authorised and regulated by the FCA. Both subsidiary entities are incorporated in the UK.

The Board is not aware of any material impediments to the transfer of own funds or repayment of liabilities between the parent undertaking and its subsidiaries.

The corporate structure of BNYMIL is illustrated in Figure 1.

Figure 1: BNYMIL corporate structure at 31 December 2017



EMEA Operating Model (Three Bank Model)

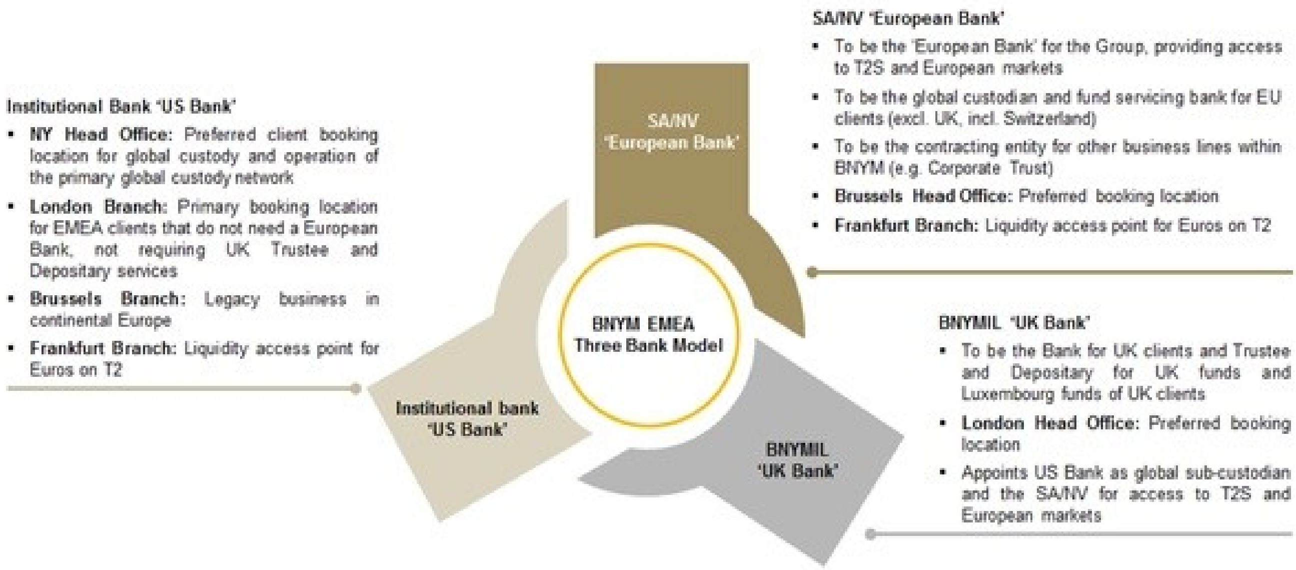
To create a more efficient operating model and respond to increasing demands from regulators in the US, UK and EMEA, the BNY Mellon EMEA Operating Model is proposed to be re-aligned around Three Banking Entities in EMEA. To facilitate the proposed model, a new global booking principle and a Dual Custody model will be implemented within BNY Mellon over the next few years. This rationalized, more efficient and simple structure will give BNYMIL flexibility for growth by freeing up capital and allowing more room for new products and services, thereby allowing the Company to focus its business on UK clients.

The **rationales** behind the Three Bank Model initiative include:

- Reduction of complexity in Legal Entity structure as well as respective contractual framework
- Improvement of resolvability by removing duplication, potential conflicts and improving transparency on risks
- Viability of businesses with appropriate client base, operations / balance sheet size, capital and management
- Appropriate alignment to client needs whilst improving client experience through more efficient service delivery
- Deliver shareholders value through more efficient use of resources, liquidity and capital and improved client growth and retention

The **outcome** of the Three Bank Model is illustrated in figure 2 below:

Figure 2: The Three Bank Model



1.10 Core business lines and critical economic functions

BNYMIL's sole core business line is Asset Servicing. Within this core business line, BNYMIL provides a number of critical economic functions (CEFs[1]) including Custody Services, Transfer Agency and Fund Accounting. BNYMIL also provides Trustee Services directly and through its subsidiary, BNY Mellon Trust & Depositary (UK) Limited and also provides fiduciary services through the Luxembourg Branch. During 2017, BNYMIL purchased the business of the subsidiary BNY Mellon Trust and Depositary (UK) Limited. The transfer of clients into BNYMIL commenced in August 2017 and is expected to continue into mid 2018. Once the client transfer is completed and the business resides fully in BNYMIL, a decision will be made about the future of BNY Mellon Trust and Depositary (UK) Limited. However, the nature of the Trustee Services activity does not meet the criteria for designation as a CEF. An overview of the three CEFs and Trustee Services is provided below.

[1] A critical economic function is defined as "a function whose disruption or withdrawal could have an adverse material impact on financial stability in the United Kingdom", pursuant to the PRA's Supervisory Statement SS10/14.

1.10.1 Custody Services

Custody services are provided to customers (or their advisors) to assist with holding and keeping track of their securities. Specifically, BNYMIL's custody services include the following functions:

- Safekeeping of instruments either in physical form or within a securities settlement system or central securities depository
- Maintaining records of the securities being held and the securities being bought and sold
- Presenting securities either electronically or on occasion physically to, and receiving securities from, a clearing and settlement platform
- Collecting income earned on the securities such as dividends and interest
- Delivering issuer communications to the investor

- Preparing reports for the investor, such as settlement reports, income collection reports, etc.

1.10.2 Transfer Agency

Transfer agency is contracted by customers, including pension funds, mutual funds and asset managers, to maintain records of investors (share or unit holders), account balances and transactions, to cancel and issue share/unit certificates, perform cash processing, provide call centre services and to process investor mailings.

1.10.3 Fund Accounting

Fund accounting provides daily fund accounting and fund administration services to UK and Irish-based asset managers, fund distributors and life companies. The fund types serviced are unit trusts, open-ended investment companies (OEICs), money market funds, charity funds, life and pension funds, common investment funds and investment trusts. The asset types serviced include equity, fixed income, cash instruments, derivatives and fund of funds. Net Asset Value (NAV) is calculated at each valuation point, usually daily, and financial statements are prepared usually on a semi-annual and annual basis for publication to fund investors.

1.10.4 Trustee Services

Trustee services are performed directly by BNYMIL and through its subsidiary BNY Mellon Trust and Depositary (UK) Limited. Trustee services are provided to UK and Irish clients, predominantly UK and Irish domiciled funds.

Trustee Services' role is one of oversight and effectively represents the interests of the unit holders of the funds. In fulfilling its fiduciary responsibilities, Trustee Services performs a number of functions:

- Reconciliation - between internal and external cash and custody accounts and between internal BNY Mellon systems from other service offerings. For example, reconciliations are performed between fund accounting and transfer agency systems in order to enhance control and quality of service
- Investment and borrowing powers - daily intraday monitoring of investment and borrowing limits and other bespoke client reporting
- Liquidity analysis - processing and analysis of the liquidity of clients' funds with the aim of ensuring redemptions can always be covered by the assets of the scheme
- NAV reconstruction - independent reconstruction of NAV calculations and identification of potential errors through expertise and bespoke systems

1.11 Legal entities

BNYMIL's core business line and critical economic functions are conducted through several legal entities organised in various jurisdictions.

1.11.1 The Bank of New York Mellon (International) Limited

BNYMIL provides asset servicing to clients, particularly custody and investment administration services. Although BNYMIL has a banking licence, it does not actively seek deposits, provide credit facilities or provide retail banking services, only doing so as a result of its core activity. These activities are exempt from a credit consumer licence and do not form part of the core activities of BNYMIL.

BNYMIL also has permissions for the following activities:

- Accepting deposits
- Advising on investments (except on pension transfers and pension opt-outs)
- Agreeing to carry on a regulated activity
- Arranging deals in investment
- Arranging safeguarding and administration of assets
- Causing dematerialised instructions to be sent
- Dealing in investments as both agent and principal
- Making arrangements with a view to transactions in investments
- Safeguarding and administration of assets (without arranging)
- Depositary services (including fiduciary services in the Luxembourg Branch)

1.11.2 The Bank of New York Mellon (International) Limited Luxembourg Branch

The Bank of New York Mellon (International) Limited Luxembourg Branch provides administration services, including depositary services for collective investment schemes (CISs), transfer agency and fund accounting.

1.11.3 BNY Mellon Trust & Depositary (UK) Limited

BNY Mellon Trust & Depositary (UK) Limited (BNYMTDUKL) is a private limited company incorporated in the UK and authorised by the FCA to carry on business as a depositary. BNYMTDUKL's primary activity is to perform trustee and depositary services for CISs. BNYMTDUKL also performs limited custody services. BNYMTDUKL has a fiduciary responsibility for arranging safekeeping of assets and for facilitating the creation and cancellation of units / shares. The trustee is not responsible for appointing the fund accountant or transfer agent.

The business of BNYMTDUKL was purchased by its parent BNYMIL during 2017, at which point the transitioning of the business into the parent entity commenced. This transition is expected to be completed around mid 2018, at which point all the client and company assets will reside in BNYMIL. A decision about the future of BNYMTDUKL will be made at this point.

2 Own funds

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

	Consolidated	Solo
Total assets	£10,146m	£10,076m
Common Equity Tier 1 capital	£448m	£448m
Total own funds	£523m	£523m
Total Risk Weighted Assets	£936m	£881m

Own funds comprise tier 1 and tier 2 capital less deductions. This section provides an overview of the regulatory balance sheet and composition of BNYMIL's regulatory own funds. There are a number of differences between the balance sheet prepared in accordance with International Financial Reporting Standards (IFRS) and Pillar 3 disclosures published in accordance with prudential requirements.

BNYMIL's regulatory capital is defined by CRD IV and includes:

- **Common equity tier 1 capital** which is the highest quality form of regulatory capital under Basel III comprising common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments
- **Tier 2 capital** which is a component of regulatory capital under Basel III, mainly comprising qualifying subordinated loan capital, and eligible collective impairment allowances

Table 2: Regulatory adjustments

These tables show a reconciliation of BNYMIL's balance sheets on a consolidated and solo basis prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: Reduced Disclosure Framework (FRS 101) and the regulatory balance sheet prepared under prudential rules. The regulatory balance sheet forms the basis for the calculation of regulatory capital requirements.

BNYMIL (Consolidated) at 31 December 2017 (£m)	Consolidated balance sheet	Regulatory adjustments	Regulatory balance sheet
Assets			
Cash in hand and on demand balances at central banks	6,974	—	6,974
Loans and advances to banks	2,145	—	2,145
Loans and advances to customers	152	—	152
Financial instruments – available for sale	595	—	595

BNYMIL (Consolidated) at 31 December 2017 (£m)	Consolidated balance sheet	Regulatory adjustments	Regulatory balance sheet
Investments	188	(188)	—
Intangible assets	—	—	—
Tangible fixed assets	—	—	—
Prepayments and accrued income	15	3	18
Other assets	77	4	81
Total assets	**10,146**	**(181)**	**9,965**
Liabilities			
Deposits by banks	2,018	2	2,020
Customer accounts	7,379	(19)	7,360
Other liabilities	27	14	41
Accruals and deferred income	7	—	7
Current and deferred tax liabilities	—	14	14
Subordinated loan	75	(75)	—
Provision for liabilities and commitments	—	—	—
Total liabilities	**9,506**	**(64)**	**9,442**
Shareholders' equity			
Called up share capital	520	—	520
Reserves	66	(7)	59
Profit and loss account	54	—	54
Deductions from capital	—	(185)	(185)
Tier 2 capital	—	75	75
Capital and reserves	**640**	**(117)**	**523**
Total equity and liabilities	**10,146**	**(181)**	**9,965**

BNYMIL (Solo) at 31 December 2017 (£m)	Solo balance sheet	Regulatory adjustments	Regulatory balance sheet
Assets			
Cash in hand and on demand balances at central banks	6,973	—	6,973
Loans and advances to banks	2,145	—	2,145
Loans and advances to customers	152	—	152
Financial instruments – available for sale	595	—	595
Investments	118	(118)	—
Intangible assets	—	—	—
Tangible fixed assets	—	—	—
Prepayments and accrued income	16	2	18
Other assets	77	4	81
Total assets	**10,076**	**(112)**	**9,964**
Liabilities			
Deposits by banks	2,018	2	2,020
Customer accounts	7,360	(2)	7,358
Other liabilities	46	10	56
Accruals and deferred income	7	—	7

BNYMIL (Solo) at 31 December 2017 (£m)	Solo balance sheet	Regulatory adjustments	Regulatory balance sheet
Current and deferred tax liabilities	—	—	—
Subordinated loan	75	(75)	—
Provision for liabilities and commitments	—	—	—
Total liabilities	**9,506**	**(65)**	**9,441**
Shareholders' equity			
Called up share capital	520	—	520
Reserves	20	(8)	12
Profit and loss account	30	—	30
Deductions from capital	—	(114)	(114)
Tier 2 capital	—	75	75
Capital and reserves	**570**	**(47)**	**523**
Total equity and liabilities	**10,076**	**(112)**	**9,964**

The main difference between accounting amounts and regulatory exposure amounts relates to an investment in associate that is not subject to credit risk, rather it gives rise to a full capital deduction. The investment in associate of £114 million (2016: £125 million) represents a 10% (2016: 10%) participating interest in an 'Investment and Cooperation Agreement' with another Group entity. This investment is regarded as connected lending of capital nature and hence deducted from the regulatory capital.

The Company does not have a trading book, but there are securities in the non-trading book that are measured at fair value, applying observable quoted prices.

Table 3: Composition of regulatory capital

This table shows the composition of regulatory capital including all regulatory adjustments at 31 December 2017.

	BNYMIL (Consolidated)		BNYMIL (Solo)	
Own Funds (£m)	**31-Dec-17**	**31-Dec-16**	**31-Dec-17**	**31-Dec-16**
Tier 1 (T1) capital				
Common Equity Tier 1 (CET1) capital				
Capital instruments	520	520	520	520
Retained earnings	85	31	50	20
Other comprehensive income	(5)	—	(5)	—
Reserves and others	33	33	(3)	(3)
CET1 adjustments	(185)	(172)	(115)	(125)
Total CET1 capital	**448**	**412**	**448**	**412**
Additional Tier 1 (AT1) capital				
Capital instruments	—	—	—	—
Others	—	—	—	—
AT1 adjustments	—	—	—	—
Total AT1 capital	**—**	**—**	**—**	**—**
Total T1 capital	**448**	**412**	**448**	**412**
Tier 2 (T2) capital				
Capital instruments and subordinated loans	75	75	75	75

Own Funds (£m)	BNYMIL (Consolidated) 31-Dec-17	BNYMIL (Consolidated) 31-Dec-16	BNYMIL (Solo) 31-Dec-17	BNYMIL (Solo) 31-Dec-16
Others	—	—	—	—
T2 adjustments	—	—	—	—
Total T2 capital	**75**	**75**	**75**	**75**
Total Own Funds	**523**	**487**	**523**	**487**

Table 4: Transitional own funds

BNYMIL (Consolidated) (£m) Equity Instruments, Reserves and Regulatory Adjustments	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
CET1 capital: Instruments and Reserves		
Capital instruments and the related share premium accounts	520	—
of which: ordinary shares	520	—
Retained earnings	85	—
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	28	—
CET1 capital before regulatory adjustments	**632**	—
CET1 capital: regulatory adjustments		
Intangible assets (net of related tax liability) (negative amount)	(1)	—
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	(184)	—
Year end non elegible earning adjustments	—	—
Total regulatory adjustments to CET1	**(185)**	**—**
CET1 capital	**448**	—
AT1 capital	**—**	—
T1 capital	**448**	—
T2 capital: Instruments and provisions		
Total regulatory adjustments to T2 capital	**—**	—
T2 capital	**75**	—
Total capital	**523**	—
Total risk weighted assets	**936**	—
Capital ratios and buffers		
CET1 (as a percentage of risk exposure amount)	47.8%	—
T1 (as a percentage of risk exposure amount)	47.8%	—
Total capital (as a percentage of risk exposure amount)	55.8%	—
of which: capital conservation buffer requirement	1.250%	—

BNYMIL (Consolidated) (£m) Equity Instruments, Reserves and Regulatory Adjustments	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
CET1 available to meet buffers (as a percentage of risk exposure amount)	47.8%	—
Amounts below the thresholds for deduction (before risk weighting)		
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	21	—

BNYMIL (Solo) (£m) Equity Instruments, Reserves and Regulatory Adjustments	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
Common Equity Tier 1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	520	—
of which: ordinary shares	520	—
Retained earnings	50	—
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(8)	—
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**562**	**—**
CET1 capital: regulatory adjustments		
Intangible assets (net of related tax liability) (negative amount)	(1)	—
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	(114)	—
Year-end non-eligible earning adjustments	—	—
Total regulatory adjustments to CET1	**(115)**	**—**
CET1 capital	**448**	**—**
Additional Tier 1 (AT1) capital	**—**	**—**
Tier 1 (T1) capital	**448**	**—**
Tier 2 (T2) capital: instruments and provisions		
Total regulatory adjustments to T2 capital	**—**	**—**
T2 capital	**75**	**—**
Total capital	**523**	**—**
Total risk weighted assets	**881**	**—**
Capital ratios and buffers		
CET1 (as a percentage of risk exposure amount)	50.8%	—
T1 (as a percentage of risk exposure amount)	50.8%	—
Total capital (as a percentage of risk exposure amount)	59.3%	—
of which: capital conservation buffer requirement	1.250%	—
CET1 available to meet buffers (as a percentage of risk exposure amount)	50.8%	—

BNYMIL (Solo) (£m) Equity Instruments, Reserves and Regulatory Adjustments	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
Amounts below the thresholds for deduction (before risk weighting)		
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	21	—

Table 5: Common tier 1 and additional tier 1 instruments and tier 2 instruments

This table provides a description of the main features of regulatory instruments issued and included as either tier 1 or tier 2 capital in Table 2 at 31 December 2017.

Capital instruments main features [1]	Ordinary Shares	Subordinated Debt
Issuer	The Bank of New York Mellon (International) Limited	The Bank of New York Mellon (International) Limited
Governing law(s) of the instrument	Law of England and Wales	Law of England and Wales
Regulatory treatment		
Transitional CRR rules	Not applicable	Not applicable
Post-transitional CRR rules	Common Equity Tier 1	Tier 2
Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated	Solo	Solo
Instrument type	Ordinary Shares	Subordinated Debt
Amount recognised in regulatory capital	£520 million	£75 million
Nominal amount of instrument	£520 million	£75 million
Issue price	£1	Not applicable
Redemption price	Not applicable	£75 million
Accounting classification	Shareholders' equity	Subordinated liabilities
Original date of issuance	9-August-1996	30-November-2011
Perpetual or dated	Perpetual	Dated
Maturity date	No maturity	29-November-2024
Issuer call subject to prior supervisory approval	No	No
Optional call date, contingent call dates and redemption amount	Not applicable	Not applicable
Subsequent call dates, if applicable	Not applicable	Not applicable
Coupons / dividends		
Fixed or floating dividend/coupon	Not applicable	Floating coupon
Coupon rate and any related index	Not applicable	Sterling 3 month LIBOR plus 3%
Existence of a dividend stopper	No	Not applicable
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory

Capital instruments main features [1]	Ordinary Shares	Subordinated Debt
Existence of step up or other incentive to redeem	No	No
Non-cumulative or cumulative	Not applicable	Not applicable
Convertible or non-convertible	Non-convertible	Non-convertible
Write-down features	No	No
Position in subordination hierarchy in liquidation (instrument type immediately senior to instrument)	Not applicable	Not applicable
Non-compliant transitioned features	Not applicable	No

Note: (1) this table is based on Annex II of ITS Regulation (EU) No. 1423/2013. Some 'not applicable' lines have been omitted.

3 Capital requirements

All figures relating to capital requirements and credit risk adjustments from this point forward are disclosed at a consolidated basis only. The solo requirements are similar, but slightly lower than, the consolidated requirements. Therefore this approach shows the prudent view of the Company's capital position.

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

Total risk exposure amount £936m

2016: £793m

Total capital requirement £75m

2016: £63m

BNYMIL's capital plan aims to ensure that an appropriate amount of capital is held to support its business model, allowing for prudent management of the business, given a range of plausible but severe stress scenarios. Potential capital shortfalls are identified over a 3 year period and capital plans adjusted accordingly. The plan is reflective of BNYMIL's risk appetite, which details a commitment to a strong balance sheet characterised by strong liquidity, superior asset quality and a capital structure which supports the risk taking activities and has the ability to absorb losses.

The plan is developed with input from Finance, Risk, Treasury and the business lines.

Incorporating the projected earnings based on its business plan, BNYMIL generates a 3 year forecast which forms the foundation for financial modelling and stress testing used as part of the ICAAP process.

The capital plan effectively incorporates a view of BNYMIL's current business model, the risks associated with that model, and an assessment of how those risks contribute to the amount of capital required, as per internal and external regulatory criteria. The capital plan is subject to executive and Board approval and the performance metrics reviewed at the Asset and Liability Committee (ALCO).

3.1 Calculating capital requirements

CRD IV allows for different approaches for calculating capital requirements. BNYMIL has chosen to use the standardised approach where risk weights are based on the exposure class to which the exposure is assigned and its credit quality. These risk weights used to assess requirements against credit exposures are consistent across the industry. The standardised approach is used for calculating the risk weights assigned to each risk component including credit risk, counterparty credit risk, market risk and operational risk.

Table 6: Capital requirements

This table shows the risk weighted assets for BNYMIL (Consolidated) using the standardised approach and their respective capital requirements.

Type of risk (£m)	Risk exposure amount		Capital requirements	
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
Credit risk SA*	504	383	40	31
Counterparty credit risk SA*	—	4	—	—
Market risk SA*	66	43	5	3
of which: foreign exchange position risk	66	43	5	3
Operational risk	366	359	29	29
of which: standardised approach	366	359	29	29
Credit Valuation Adjustment - standardised method	—	4	—	—
Total	**936**	**793**	**75**	**63**
Total capital			**523**	**487**
Surplus capital			448	424

* SA = standardised approach

BNYMIL meets or exceeds the minimum capital ratios required to maintain a well-capitalised status and to ensure compliance with regulatory requirements at all times. BNYMIL sets internal capital target levels higher than the minimum regulatory requirements to ensure there is a buffer which reflects balance sheet volatility. These ratios have been determined to be appropriate, sustainable and consistent with the capital objectives, business model, risk appetite and capital plan.

4 Risk management objectives and policies

Given the critical role that BNY Mellon plays supporting clients and its status as a Global Systemically Important Financial Institution (G-SIFI), the financial stability of all of its constituent legal entities, throughout market cycles and especially during periods of market turbulence, is recognised at the Corporation level as an imperative. Clients and market participants need to have confidence that the Corporation's many legal entities will remain strong and continue to deliver operational excellence and maintain an uninterrupted service. Therefore BNYMIL and, BNY Mellon Corporation as a whole, is committed to maintaining a strong balance sheet and as a strategic position assumes less risk than many financial services companies.

Whilst BNY Mellon assumes less balance sheet risk than most financial services companies, it does assume a significant amount of Operational risk as a result of its business model. As a consequence, BNY Mellon has developed an enterprise risk management program that is designed to ensure that:

- Risk tolerances (limits) are in place to govern its risk-taking activities across all businesses and risk types
- Risk appetite principles are incorporated into its strategic decision making processes
- Monitoring and reporting of key risk metrics to senior management and the Board takes place
- There is a capital planning process which incorporates both economic capital modelling and a stress testing programme

The BNYMIL Board of Directors has adopted a conservative risk appetite to maintain a strong capital position and balance sheet throughout all market cycles with strong liquidity, superior asset quality, ready access to external funding sources at competitive rates, and a robust capital structure whilst delivering operational excellence to meet stakeholders' expectations.

4.1 Risk governance

BNY Mellon Corporation Risk Management is coordinated at regional, legal entity and line of business levels. A formal governance hierarchy is in place to ensure effective escalation of issues through the regional and global structure.

The main governing body of BNYMIL is the Board of Directors. The BNYMIL Board meets on a quarterly basis, and receives reports from Risk Management, Compliance, and Internal Audit to evaluate the effectiveness of the existing control environment.

In addition, the Board has established an Executive Committee (Exco) to oversee the day-to-day management of the Company with a view to ensuring a clear-cut separation between the management and supervisory functions of the Company.

The ExCo was established in 2016 and meets on a monthly basis and reports to the Board. The key responsibilities are:

- The day-to-day execution of BNYMIL's business within the strategy and the general policy as defined by the Board and for ensuring that the culture across BNYMIL facilitates the performance of business activities with integrity, efficiency and effectiveness
- Review of corporate initiatives including strategic initiatives, financial performance, new business initiatives, policy changes, controls and organisational development. The ExCo has responsibility across all Lines of Business conducted by or impacting BNYMIL

The CASS Governance Body (CGB) provides oversight of the organisational arrangements in place within the Company to comply with the FCA's Client Assets (CASS) requirements. The CASS Operational

Oversight Committee (COOC) assists the senior manager performing the CASS Operational Oversight Function to ensure that the appropriate client assets and client money protections are actively being achieved in the Company during the course of its business.

4.1.1 Board of Directors

The main function of the Board is to define and oversee the effective execution of the strategy of BNYMIL. BNYMIL is the principal entity through which banking and asset servicing services are provided. Whilst acting autonomously and in accordance with legal and regulatory requirements, the Board is responsible for maintaining the safety and soundness of BNYMIL as a banking entity and ensuring that it remains profitable, resilient, resolvable and sustainable. The Board is also responsible for the overall leadership of BNYMIL and aligns entity strategy to that of BNY Mellon Corporation (its ultimate 100% shareholder). BNYMIL has a key role in the regional implementation of BNY Mellon Corporation's Investment Servicing line of business strategy, which is to be the highest value provider of investment services, to be a leader in investment technology, service quality and productivity.

The Board's primary responsibilities include, but are not limited to:

- Defining the business strategy, objectives and values of BNYMIL, in line with those of its primary shareholder
- Planning and monitoring the implementation of the business strategy, objectives and values within the Company
- Reviewing recurring / ad hoc reports and signing off annual accounts; approving and assessing on a regular basis the management, internal control and independent control function structure
- Assessing the efficiency and integrity of the internal control structure, in particular regarding the financial reporting process
- 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 internal policies
- Maintenance of a sound system of internal controls and risk management

The Board meets at least quarterly and the directors who served during the year were:

Name	Nationality	Number of directorships held	Position
H Kablawi*	American	2 internal 1 external	EMEA Chairman
J Wheatley	Irish	5 internal	EMEA Head of Client Service Delivery
J Jack	British	7 internal 1 external	Chief Financial Officer, International
J M Johnston**	British	2 internal	External Non-Executive Director, Chair Nomination Committee
K J Gregory	British	1 internal 2 external	Independent Non-Executive Director, Chair Risk Committee
S O'Connor***	British	4 internal 13 external	Independent Non-Executive Director, Chair Audit Committee
P Bergamaschi Broyd	Italian	1 internal 4 external	Independent Non-Executive Director, Chair Depositary Advisory Counsel

Note: M Cole-Fontayn resigned as Chairman and Chair Nomination Committee on 15 December 2017. E Shepperd resigned as an executive director on 31 August 2017. K Damsell was appointed as a director on 20 March 2018.

*H Kablawi appointed Chairman on 15 December 2017.

**J M Johnston resigned as Chief Risk Officer (executive director) on 31 March 2017. He was appointed as a non-executive director on 2 October 2017.

***4 internal (constitutes 1 non-executive for the purposes of CRDIV), 13 external (constitutes 4 non-executive for the purposes of CRD IV. CRD IV waiver in place as at 31 December 2017).

BNYMIL has established a Diversity Policy (the 'Policy') which sets out its approach to promoting diversity on the Board.

BNYMIL is committed to diversity and inclusion. This commitment is not only important to BNYMIL's culture and to each director as individuals, it is also critical to BNYMIL's ability to serve its clients and grow its business. BNYMIL recognises the benefits of having individuals with diverse backgrounds, experience and viewpoints on the Board for the different perspectives and unique contributions they provide. Board appointments are based on an individual's skill, ability, experience, training, performance, and other valid role-related requirements.

The Nomination Committee (the 'Committee') is responsible for reviewing the structure, size and composition of the Board, including its skills, knowledge, experience and diversity, and making recommendations to the Board with respect to any appointment. In identifying suitable candidates for a particular appointment, the Committee considers candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender.

BNYMIL recognises the importance of women having greater representation on the Board. As at the date of the Policy, the Committee has agreed that the Board should aspire to have a target of 30% female representation by the end of 2018. The Committee will keep this target under review in order to consider how to achieve it within the timeframe.

4.1.2 Regional Risk Governance

A regional level risk governance structure is in place to oversee all business and legal entity risk. Oversight and escalation is provided through the following key committee:

EMEA Senior Risk Management Committee (ESRMC) exercises responsibility and provides independent oversight for policies, processes and controls relating to all aspects of risk for the EMEA region. This includes the following EMEA sub-committees:

- EMEA Anti-Money Laundering Oversight Committee
- EMEA Asset and Liability Committee
- EMEA Controls Council

The ESRMC responsibilities include, but are not limited to, the following:

- Monitor and assess the impact of significant current and emerging risks including those associated with strategic initiatives at an EMEA level. Consider the impact on the risk profile of the region and provide further direction if appropriate
- Act as a point of convergence for regional risk reporting (providing a consolidated Legal Entity and Line of Business view) and sharing of risks and issues across Investment Management & Investment Services
- Escalate material issues and recommendations through common membership of the Chairman's Forum to the BNYM Senior Risk Management Committee (SRMC) and/or relevant Legal Entities

The ESRMC derives its authority from the BNYM Senior Risk Management Committee, but subject to constraints of corporate policy, legislation and regulation as appropriate.

4.1.3 Business Unit Risk Governance

In addition to the entity specific and regional governance bodies, the business conducted through BNYMIL is also subject to oversight by the following committees:

EMEA Asset Servicing (AS) and Corporate Trust (CT) Business Acceptance Committees (BAC)

The EMEA AS and CT BACs are responsible for on-boarding new/renewal business into lines of business and subsequently legal entities, including BNYMIL, approving all new clients prior to commencing a relationship with them, and approving all new clients and new business arrangements with existing clients. Risk is assessed and reviewed as part of the approval process.

EMEA Asset Servicing (AS) Business Risk Committee (BRC)

The EMEA AS BRC is responsible for ensuring that the risk profile of EMEA Asset Servicing is well understood and effectively managed. This is achieved by carrying out the review of current and emerging key risk and control issues and related initiatives, escalation of material risks and issues to the Head of BNY Mellon Asset Servicing and other regional committees and boards as appropriate, approval of new or materially modified products, review of potential off-boarding of non-systemically significant products and review of significant regulatory requirements.

EMEA Corporate Trust Business Risk Committee (BRC)

The EMEA Corporate Trust BRC, consisting of the senior management team of EMEA Corporate Trust, together with the relevant business partners and operations management, provides a forum for the regular review of business performance and key operational and control matters. In performing this role the Committee serves as a checkpoint and a platform for escalation, as well as a forum for discussion of key issues and topics.

4.1.4 Legal Entity Risk Management

The oversight of risk management within BNYMIL is governed via two risk management committees, namely:

- **The Bank of New York Mellon (International) Limited Risk Committee of the Board (RCoB)** - established by BNYMIL's Board to assist in fulfilling its oversight responsibilities with regards to risk appetite and risk management of the Company. The committee meets at least four times a year and is chaired by an independent non-executive director
- **The Bank of New York Mellon (International) Limited Risk Management Committee (RMC)** - which has delegated authority from the RCoB to oversee the management of risk on a daily basis. The RMC meets ten times per year and is chaired by the UK Legal Entity Risk Officer

4.2 Risk management framework

In line with global policy, BNYMIL has adopted the 'Three Lines of Defence' model in deploying its risk management framework (figure 3 below). The first line of defence (1LOD) is the business or, in some cases, business partner level. The business takes and owns the risk associated with activities, and it manages 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 (2LOD) and own the enterprise-wide risk management framework and provide independent oversight of the 1LOD, ensuring that policies are adhered to and challenged. This also includes Corporate Security, Business Continuity, Financial Management and Analysis within Finance. The third line of defence (3LOD) is Internal Audit, which independently provides the BNYMIL Board and senior management with the assurance that the governance structures, risk management and internal controls in place are effective.

Risk Management develops, maintains and ensures compliance with specific regulations for Risk Management governance and oversight, risk culture, Risk Management function, Risk Management Framework (including Risk Appetite Statement, risk management policies, risk management procedures), Risk Management operating model (including Risk Registers and Management Information) and risk models oversight, in accordance with the BNY Mellon regional model and recognising best market practice to ensure BNYMIL develops a well-controlled environment and an environment where risks are well understood and managed. This model encourages a proactive culture of managing risks across all Risk Management teams.

Figure 3: Managing Three Lines of Defence

3RD INTERNAL AUDIT

- Independent from the first two lines of defence
- Conducts risk-based audits
- Reports on the Company's effectiveness in identifying and controlling risks

2ND RISK AND COMPLIANCE

- Independent oversight and monitoring
- Consistent corporate level policies and standards
- Reliable and timely enterprise-wide reporting
- Issues escalated in a timely fashion
- Includes Corporate Security, Business Continuity, Financial Management and Analysis with Finance, HR and Legal

1ST BUSINESS/LEGAL ENTITIES

- Own risks associated with activities
- Each employee understands and manages the risks inherent in their jobs
- Controls and sound business level policies in place
- Operate within their "Risk Appetite"
- Issues escalated in a timely fashion
- Includes risks owned primarily by business partners

BNY Mellon Risk and Compliance policies and guidelines provide the framework for BNYMIL's risk identification, internal controls, monitoring, reporting and escalation. Risks are managed within specialist risk teams (e.g. market, credit, operational) or via line of business risk teams.

4.3 Risk register

The BNYMIL Risk Register is a risk management tool used for the identification, assessment, documentation and mitigation of the key risks associated with the legal entity.

The Risk Register is prepared and owned by the Legal Entity Risk Officer (LERO). Senior Risk Managers of each Line of Business (LOB RMs), Risk Management function heads (e.g. Credit Risk) and key representatives from the Lines of Business/Legal Entities contribute to the Risk Register sign off. The Risk Register is presented, for information, through the legal entity governance structures and is a living document and is updated regularly, at least annually or upon significant change.

4.4 Risk appetite

BNYMIL's Risk Appetite Statement is owned and approved by the Board. It describes the level of risk that the Board is willing to accept in its strategy and business activities, given its business objectives and obligations. The statement applies to all subsidiaries and is reviewed at least annually or when the Company's risk profile changes.

BNYMIL uses a variety of metrics to measure and monitor its risk taking activities relative to its risk appetite. Articulating risk appetite through its metrics aids important decision-making by determining actions such as pursuing new products and enterprises, exiting businesses, and aligning resources to maximise potential gains given acceptable levels of risk. The metrics are actively monitored, managed and mitigated through the monthly RMC.

4.5 Risk and control self-assessment

The Risk and Control Self- Assessment (RCSA) is a tool used by the business to identify its risks associated with their key processes. Areas of concern within the RCSAs are escalated by the Line of Business (LOB) Risk Managers to the Risk Management Committee.

4.6 Key risk indicators

Key Risk Indicators (KRIs) are used by Line of Business to evaluate control effectiveness against the agreed thresholds. KRI reporting and monitoring is performed monthly by the LOB Risk Managers and key concerns are escalated to BNYMIL's RMC.

4.7 Operational risk events

All Operational Risk losses and fortuitous gains exceeding USD 10k are captured within the Risk Management Platform (RMP), verified by the Line of Business Risk Manager, and reconciled to the General Ledger. Operational Risk event reporting forms part of the standard risk management report to the RMC and Board.

4.8 Credit risk

All counterparties (clients and banks) are assessed and allocated a borrower rating in accordance with BNY Mellon's rating system. 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 a suitable credit officer in light of individual circumstances. Post-event monitoring is also conducted by both Client Services and the Credit function.

4.9 Market risk

BNY Mellon undertakes Market Risk within the boundaries of its 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 must undertake Market Risk within the boundaries of those statements as well.

BNY Mellon manages Market Risk using a Three Lines of Defence approach (i.e. by each business unit, by Market Risk, and by Internal Audit).

Market Risk limits are set consistent with the BNYMIL's Risk Appetite Statements and are jointly managed by the business units undertaking the risk and the Market Risk function (respectively, the First and Second Line of Defence).

Market Risk exposure is measured, monitored and analysed 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 utilisation of Market Risk limits on a daily basis
- Reporting of limit utilisation 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

The current Market Risk mandate and limit schedule within this framework for BNYMIL is simple and sets straightforward controls on the level of Market Risk exposure permitted in BNYMIL's Treasury activities.

Market Risk independently monitors exposures against limits daily; any breaches, depending on the level and type of limit that is breached, are escalated and notified to RCoB, ALCO, or to Senior Risk Management and Business Management.

4.10 High level assessment

The High Level Assessment ("HLA") is a business level qualitative assessment performed at the Business/ Business Partner Group level. It is a consolidated review that analyses the risk profile of the business, the quality of controls in place to mitigate risks and internal and external factors impacting the business.

The HLA is designed to ensure that Business/Business Partners and Risk Management identify, review and discuss the risks of the business including Material Operational Risks on a regular basis. It enables current and emerging risks to be identified, discussed, addressed and elevated as appropriate.

Focussing on the Business Line, the HLA does not provide specific information on Legal Entities, however it is a useful source of information to enable the Legal Entity to form a view on the risks identified by the Business Lines operating within BNYMIL.

4.11 Top risks

Top risks are identified according to the assessment of the inherent risk, quality of controls in place to mitigate risk and ability to identify residual risk. Top risks are rated as ‘High,’ ‘Moderate to High,’ ‘Moderate,’ ‘Moderate to Low’ and ‘Low’ with direction anticipated. The top risks assessed form part of the RMC and Board meeting reporting. Top risks are also consolidated into the EMEA regional top risk reporting process for reporting to the EMEA level Risk Committees. BNYMIL’s risk profile is recorded through a number of risk assessment tools and the risk management team prepares and updates the top risk assessment which is reviewed and approved by the RMC monthly and by the Board quarterly.

4.12 Stress testing

Stress testing is undertaken within BNYMIL to monitor and quantify risk and capital and ascertain whether sufficient capital resources are held against risks on a forward-looking basis. The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to BNYMIL’s risk profile. The stress testing process conclusion is a statement of the future risk(s) that the business faces, control improvements to mitigate the impact should the risk arise and where appropriate, a recommendation for capital to be held against each risk type.

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by BNYMIL’s RMC and Board.

4.13 Escalation of risks and issues

A robust framework exists for monitoring and escalation of issues and risks. If a material risk issue occurs, the EMEA Governance Guide for reporting and escalation of material issues and risks is followed. Business management is required to notify senior management, which includes BNYMIL Board members, soon after determination. Risk management is responsible for supporting the business lines in achieving the following:

- Identifying and documenting all material risks, assessing the effectiveness of control design, and ensuring that control gaps are closed
- Developing and implementing standards and policies appropriate for the business that conform to the principles and guidelines established by Risk
- Elevating, reporting and investigating operating errors, losses and near misses, identifying root causes and implementing corrective actions
- Reviewing key indicators for coverage and effectiveness, identifying root causes for red and amber conditions and ensuring implementation of corrective actions
- Approving the process to accept new business, including ‘Request for Proposal’ preparation, contract acceptance and compliance, and challenging whether BNYMIL is being compensated appropriately for the assumption of risk
- Reviewing the impact of changes in business processes on inherent risks and controls such as reorganisations, new products or processes, system conversions and acquisitions, etc.
- Ensuring that processes, risks and controls are continually reassessed for appropriateness and completeness

Management information is used to monitor the performance of the transaction processing and support services including specific risk exposures (e.g. cash and securities reconciliation breaks) and red/amber/ green ratings in respect of the health of the operational functions.

4.14 Internal capital adequacy assessment process (ICAAP)

An ICAAP document is produced at least annually for BNYMIL on a consolidated basis, including its subsidiaries. The process and document is owned by the BNYMIL Board and supported by the UK/Ireland ICAAP and Capital Stress Testing team. The purpose of the ICAAP is to:

- Document the ongoing assessment and monitoring of the Company's material risks and the approaches used to mitigate those risks, such that they remain within the Risk Appetite established by the Board
- Determine how much capital is likely to be necessary to support those risks, at the moment the assessment is made, and over the Company's three-year planning horizon, both under baseline and stressed conditions
- Document the internal capital adequacy assessment process both for internal stakeholders and prudential supervisors
- Provide the necessary information so that senior management and the Board can make decisions about the amount of capital that is required and the approach to risk management that should be adopted by BNYMIL

4.15 Recovery & resolution planning (RRP)

BNYMIL updates its recovery plan annually, in accordance with regulatory guidance. The recovery plan is designed to ensure that the BNYMIL group has credible and executable options to meet the challenges that may arise from potential future financial and/or operational crises. BNYMIL also submits its resolution information to the regulator every two years, as prescribed by supervisory policy.

5 Credit risk

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

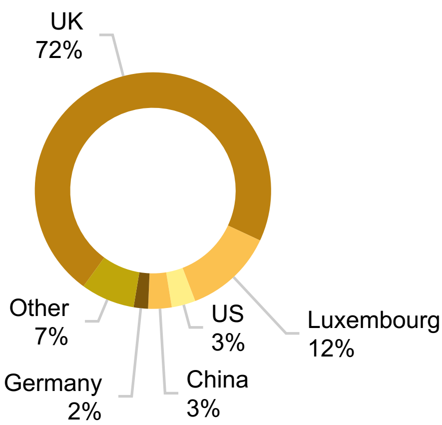
Total net credit exposure amount £8,745m

2016: £5,696m

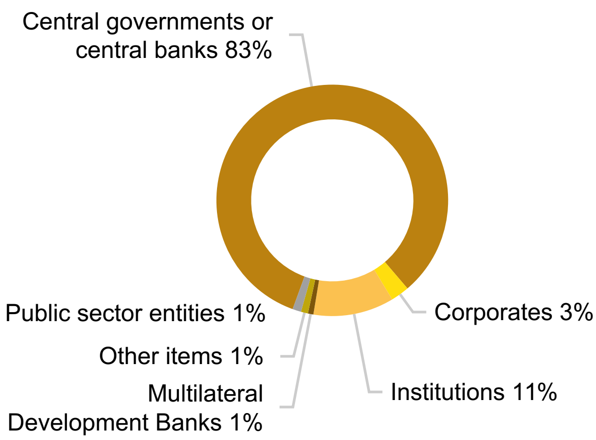
Total on and off-balance sheet exposures £10,082m

2016: £6,772m

Standardised Credit Exposure by Country



Standardised Credit Exposure by Counterparty



5.1 Definition and identification

Understanding, identifying and managing Credit Risk is a central element of BNY Mellon's successful risk management approach. BNYMIL's Credit Risk is managed in line with the BNY Mellon's Risk Appetite to minimise losses whilst identifying future potential risks. BNYMIL's business model creates Operational and Intraday Credit Risks. This section describes the effective governance of Credit Risk exposures in BNYMIL. The principles, methodologies, and process outlined in this section relating to Credit Risk will be reviewed and may be modified as part of the annual review process of Credit policy, if applicable.

BNYMIL has a liability-driven balance sheet and typically engages in the provision of Custody services to its clients. BNYMIL generates the following forms of credit exposure:

Client Lending:

Credit facilities are provided on an advised but uncommitted basis to some Investment Trusts.

Unadvised, uncommitted intraday and overnight internal guidance facilities are provided in support of operational activity (trade settlement, cash wire activity, FX trades, etc.).

Nostros:

BNYMIL utilises a number of banks around the world to maintain cash and securities accounts to enable access to over a hundred worldwide markets and to facilitate its Global Custody business. The larger, more active nostros are actively managed, others (mostly smaller, more exotic markets) are not. Nostro balances occur as a result of underlying client custody activity (trade settlements, securities maturing, etc). This is known as 'as offered' exposure, since it is dependent largely upon the client activity rather than BNYMIL's own Treasury function. Nostro exposure forms the bulk of BNYMIL's Credit Risk to other banks.

Daylight/Intraday Credit Exposure:

Intraday credit exposure can be created from three sources:

- Daylight (or intraday) limits that are authorised by Credit Risk to facilitate client activity for various businesses and products throughout BNY Mellon. These daylight limits permit STP (straight through processing) of transactional activity and may generate intraday credit exposure up to the approved limit, with the expectation that the exposure will be cleared by the end of the same business day
- Intraday credit exposure is derived from timing differences arising from BNY Mellon operational processes and/or settlement activity that results in the extension of credit, which is expected to be extinguished within the business day when the payment and/or settlement activity is completed. For example, a counterparty's account may be credited based on the anticipated settlement of securities sales or make a payment on behalf of a counterparty in the morning and not receive covering funds until late in the afternoon
- Intraday credit exposure can arise from the credit approval of a transaction for which no approved limit exists or the transaction exceeds the approved limits. The expectation that the exposure will be cleared by the end of the business day remains

Cash Placements:

BNYMIL deposits funds with, or purchases certificates of deposits issued by, other banks.

5.2 Credit risk management framework

At the outset of a new agent bank, trading counterpart or customer relationship, a review is undertaken by the business in partnership with Credit Risk to determine the client's suitability for the products offered and BNYMIL's Risk Appetite for the name. Once it is agreed that the relationship can be entered into and suitable limits made available to accommodate the activity, the client can be mandated and moved through the Business Acceptance Committee process for formal approval by all relevant parties. As the First Line of Defence, the business has primary responsibility to identify the nature and quantum of Credit Risk that may be incurred as a result of any business relationship. Credit Risk assists in that assessment as the Second Line of Defence.

Credit Risk is an outsourced service provided under Service Level Descriptions (SLDs) to the various global BNYM Legal Entities. Each Legal Entity Board of Directors will approve both an appropriate Risk Appetite Statement and a Legal Entity specific Credit Risk Policy which details the roles and responsibilities and levels of delegated authority for each type of activity.

5.3 Management of credit risk

Credit risk (including metrics, breaches, and output) is effectively managed in a number of ways:

- Nostros are maintained at the minimum possible level and within the large exposure limits, ensuring smooth operations and adherence to own fund requirements. The banks used are all major, well rated banks in their relevant countries
- For custody clients, limits are calculated as a percentage of AUC. Most clients have, within their Global Custody Agreement (GCA), provided the bank with a contractual right of set-off across currency accounts, a custodial lien on the assets held with right of retention and sale if debts are not repaid
- For legal reasons certain clients may not be able to provide a lien on their assets, or there may be some other inability to encumber the asset pool which may be held ultimately for the benefit of other parties (e.g. insurance companies, etc.). However, these clients are usually also highly rated financial institutions. Therefore, the risk is mitigated by their high credit rating rather than access to a collateralised bond portfolio
- In some instances, the provision of an overdraft to a client could result in a large exposure breach. To mitigate this risk, a Risk Participation Agreement is in place with The Bank of New York Mellon, whereby excess exposure can be legally transferred to the larger bank and thereby removed from the BNYMIL balance sheet. This arrangement is fully collateralised where necessary, to offset the intragroup large exposure risk
- A Master Netting Agreement is in place to cover intragroup exposure to BNY Mellon SA/NV
- Placement activity with third party banks is subject to credit approval and is only permitted after careful consideration of the quality of the counterparty bank, large exposure issues and exposure elsewhere within the BNY Mellon enterprise. Relationships with, and limits for, all banks are managed globally by BNY Mellon. BNYMIL counterparty bank limits are managed as a subset within the overall limits approved by the parent

The metrics supporting the management of credit risk are monitored on a monthly basis and reported to BNYMIL's senior management.

5.4 Monitoring and reporting

Credit risk is monitored and controlled in real time through the Global Funds Control Platform and its interaction with both the Global Securities Processing (GSP) system for securities settlement activity and the International Money Management System (IMMS), which is the bank’s proprietary Demand Deposit Account platform.

Post-event monitoring is conducted by the Client Service area, with secondary oversight from the Credit Risk function.

5.5 Governance

Governance of credit risk oversight as a second line of defence function is described and controlled through Credit Risk Policy and day-to-day procedures as follows:

- Credit Risk Policy for each legal entity describes the outsourcing of credit risk tasks, defines roles and responsibilities and requires reporting to be carried out to each business line and entity that the policy applies to. Any deviation from approved policy requires either senior business or senior legal entity approval depending on the type of event
- Approvals for excesses are controlled using a matrix of credit risk approval authorities held within the Credit Risk Policy - each Credit Risk Officer has their own individual delegated approval authority granted by the Chief Credit Officer. He/she must act within those limits when making approvals. If an excess is beyond the Officer's approval limit, it is escalated to a more senior officer as per the applicable Credit Risk Policy. The outsourcing of credit responsibility to Credit Risk is through the Board approved Credit Risk Policy
- Overdraft monitoring is a daily task and conducted within each legal entity - significant overdrafts are chased on a daily basis in line with BNYMIL's risk appetite. All significant overdrafts and exposures are recorded and form part of the credit risk management information produced on a monthly basis for various management committees

5.6 Analysis of credit risk

Credit risk exposure is computed under the standardised approach which uses external credit assessment institutional ratings and supervisory risk weights supplied by external credit assessment agencies. The following credit risk exposure tables summarise the credit exposure for BNYMIL in accordance with the CRD IV requirements.

The definitions below are used in the following tables:

- **Exposure at Default (EAD)** is defined as the amount expected to be outstanding, after any credit risk mitigation, if and when a counterparty defaults. Exposure reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures over a one-year time horizon. As such, exposure in this context may differ from statutory IFRS accounting balance sheet carrying values
- **Exposures in Default (past due) -** BNYMIL has a low level of exposures in default which are defined as accounts receivable balances in excess of agreed limits for more than 90 days. This definition only applies to regulatory computations and is disclosed under exposure class, exposures in default. In the case of BNYMIL this carries no impairment
- **Credit Conversion Factor (CCF)** converts the amount of a free credit line and other off-balance sheet transactions (with the exception of derivatives) to an EAD amount. This function is used to calculate the exposure at default
- **Credit Risk Mitigation (CRM)** is defined as a technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection
- **Geographic area** is based on the continental location for the counterparty
- **Residual maturity** is defined as the period outstanding from the reporting date to the maturity or end date of an exposure

Table 7: Standardised credit exposure by exposure class

The following tables show the credit risk for BNYMIL (Consolidated) post CRM techniques using the standardised approach by exposure class at 31 December 2017:

Exposure class (£m)	Net value at the end of the period	Average net value over the period
Central governments or central banks	7,269	5,421
Corporates	226	232
Covered Bonds	—	—
Institutions	984	1,781
Multilateral Development Banks	66	50
Other items	86	95
Public sector entities	105	26
International Organisations	—	—
Exposures in Default (past due)	9	6
Total	**8,745**	**7,610**

Table 8: Standardised credit exposure by country

This table shows the BNYMIL (Consolidated) post CRM exposure by class and by geographic area of the counterparty.

At 31 December 2017 (£m)	UK	Luxembourg	US	China	Germany	Other	Total
Central governments or central banks	5,992	980	278	—	—	18	7,269
Corporates	122	30	—	—	—	74	226
Covered Bonds	—	—	—	—	—	—	—
Institutions	83	—	—	281	104	515	984
Multilateral Development Banks	—	60	6	—	—	—	66
Other items	83	—	2	—	—	1	86
Public sector entities	—	—	—	—	69	37	105
International Organisations	—	—	—	—	—	—	—
Exposures in Default (past due)	9	—	—	—	—	—	9
Total	**6,290**	**1,071**	**286**	**281**	**172**	**645**	**8,745**

At 31 December 2016 (£m)	UK	Luxembourg	Canada	Belgium	US	Other	Total
Central governments or central banks	3,890	965	—	—	20	—	4,875
Corporates	91	4	—	—	19	—	114
Covered Bonds	—	—	—	—	—	—	—
Institutions	79	1	186	122	19	191	598
Multilateral Development Banks	—	—	—	—	—	—	—
Other items	98	3	—	3	5	—	109
Public sector entities	—	—	—	—	—	—	—
International Organisations	—	—	—	—	—	—	—
Total	**4,158**	**973**	**186**	**125**	**63**	**191**	**5,696**

Table 9: Standardised post mitigated credit exposures by counterparty type

This table shows the BNYMIL (Consolidated) credit exposure post CRM classified by class and by counterparty type.

At 31 December 2017 (£m)	Central governments	Credit institutions	Other financial corporations	Various balance sheet items	Total
Central governments or central banks	7,269	—	—	—	7,269
Corporates	—	—	226	—	226
Covered Bonds	—	—	—	—	—
Institutions	—	984	—	—	984
Multilateral Development Banks	—	66	—	—	66
Other items	—	—	—	86	86
Public sector entities	105	—	—	—	105
International Organisations	—	—	—	—	—
Exposures in Default (past due)	—	—	—	9	9
Total	**7,375**	**1,049**	**226**	**95**	**8,745**

Table 10: Standardised credit exposure by residual maturity

This table shows the BNYMIL (Consolidated) exposure post credit risk mitigation, classified by credit exposure class and residual maturity.

At 31 December 2017 (£m)	On demand	Less than 1 year	Less than 5 years	More then 5 years	No stated maturity	Total
Central governments or central banks	6,929	89	172	36	44	7,269
Corporates	152	74	—	—	—	226
Covered bonds	—	—	—	—	—	—
Institutions	60	812	111	—	—	984
Multilateral Development Banks	—	—	66	—	—	66
Other items	86	—	—	—	—	86
Public sector entities	—	11	77	17	—	105
International organisations	—	—	—	—	—	—
Exposures in default (past due)	9	—	—	—	—	9
Total	**7,236**	**987**	**425**	**53**	**44**	**8,745**

5.7 Analysis of past due and impaired exposures

An aspect of credit risk management relates to problem debt management, which entails early problem identification through to litigation and recovery of cash where there is no realistic potential for rehabilitation.

The following tables provide an analysis of past due and impaired exposures using the following definitions:

- **Past due** exposure is when a counterparty has failed to make a payment when contractually due
- **Impaired exposure** is when the entity does not expect to collect all the contractual cash flows when they are due

As at 31 December 2017, BNYMIL had no material impaired assets for which a specific or general provision was required. There were no material assets past due greater than 90 days. BNYMIL did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year. It should also be noted that the Company transitioned to International Financial Reporting Standards 9 (IFRS 9) at 31 December 2017 with no material impact in relation to Expected Credit Losses (ECL).

Table 11: Credit quality of exposures by counterparty type

This table provides a comprehensive picture of the BNYMIL (Consolidated) credit quality of on- and off-balance sheet exposures.

	Exposures		Credit risk adjustments				
Counterparty type at 31 December 2017 (£m)	**Defaulted**	**Non-defaulted**	**Specific**	**General**	**Accumulated write-offs**	**Credit risk adjustment charges of the period**	**Net values**
Central governments or central banks	—	7,269	—	—	—	—	7,269
Credit institutions	—	2,202	—	—	—	—	2,202
Other financial corporations	—	344	—	—	—	—	344
Public sector entities	—	105	—	—	—	—	105
Various balance sheet items	—	86	—	—	—	—	86
Multilateral Development Banks	—	66	—	—	—	—	66
Exposures in default (past due)	—	9	—	—	—	—	9
Total	**—**	**10,082**	**—**	**—**	**—**	**—**	**10,082**

	Exposures		Credit risk adjustments				
Counterparty type at 31 December 2016 (£m)	**Defaulted**	**Non-defaulted**	**Specific**	**General**	**Accumulated write-offs**	**Credit risk adjustment charges of the period**	**Net values**
Central governments or central banks	—	4,875	—	—	—	—	4,875
Credit institutions	—	1,673	—	—	—	—	1,673
Other financial corporations	—	115	—	—	—	—	115
Various balance sheet items	—	109	—	—	—	—	109
Total	**—**	**6,772**	**—**	**—**	**—**	**—**	**6,772**

Table 12: Credit quality of exposures by industry

This table shows the credit quality of BNYMIL (Consolidated) on- and off-balance sheet exposures by industry type.

Industry type at 31 December 2017 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Financial and insurance activities	—	9,387	—	—	—	—	9,387
Other services	—	694	—	—	—	—	694
Total	**—**	**10,082**	**—**	**—**	**—**	**—**	**10,082**
Of which: Loans	—	9,964	—	—	—	—	9,964
Of which: Off-balance sheet exposures	—	118	—	—	—	—	118
Total	**—**	**10,082**	**—**	**—**	**—**	**—**	**10,082**

Industry type at 31 December 2016 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Public administration and defence, compulsory social security	—	20	—	—	—	—	20
Financial and insurance activities	—	5,437	—	—	—	—	5,437
Other services	—	1,315	—	—	—	—	1,315
Total	**—**	**6,772**	**—**	**—**	**—**	**—**	**6,772**
Of which: Loans	—	6,772	—	—	—	—	6,772
Total	**—**	**6,772**	**—**	**—**	**—**	**—**	**6,772**

Table 13: Credit quality of exposures by geographical breakdown

This table shows an analysis of BNYMIL (Consolidated) past due, impaired exposures and allowances by country using the IFRS methodology.

Counterparty type at 31 December 2017 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
UK	—	6,504	—	—	—	—	6,504
Luxembourg	—	1,011	—	—	—	—	1,011
Cayman Islands	—	585	—	—	—	—	585

Counterparty type at 31 December 2017 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
US	—	456	—	—	—	—	456
Belgium	—	363	—	—	—	—	363
Other	—	1,163	—	—	—	—	1,163
Total	**—**	**10,082**	**—**	**—**	**—**	**—**	**10,082**

Counterparty type at 31 December 2016 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
UK	—	4,149	—	—	—	—	4,149
Luxembourg	—	970	—	—	—	—	970
Belgium	—	634	—	—	—	—	634
US	—	630	—	—	—	—	630
Canada	—	192	—	—	—	—	192
Other	—	197	—	—	—	—	197
Total	**—**	**6,772**	**—**	**—**	**—**	**—**	**6,772**

6 Credit risk mitigation

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

Total gross credit risk exposures (includes on- and off- balance sheet amounts) £10,082m

Total gross credit risk exposures secured (includes on- and off- balance sheet amounts) £1,218m

BNYMIL manages credit risk through a variety of credit risk mitigation strategies including collateral and master netting agreements and netting arrangements.

6.1 Netting

BNYMIL facilitates customer settlement activity which gives rise to receivables and payables across multiple accounts. On-balance sheet netting agreements have a similar effect to a 'cash-pooling' arrangement, insofar as the amounts due from customers can be recorded on a net basis across accounts.

BNYMIL also has master netting agreements (MNAs) with other BNYM entities that allow it to net intercompany balances on a single currency basis. The agreements meet the requirements of the CRR for credit risk mitigation purposes.

International Swaps and Derivatives Association (ISDA) Master Agreements and netting can be used to mitigate counterparty credit risk. The ISDA Agreement incorporates schedules that allow the contracting parties to customise the terms and conditions to their mutual satisfaction to cover termination events, netting arrangements, security and other matters. However, BNYMIL did not have any derivative positions as at 31 December 2017 and so does not currently make use of ISDA master netting agreements.

6.2 Collateral valuation and management

BNYMIL can receive collateral from a counterparty which can include guarantees, cash equities and debt securities, BNYMIL has the ability to call on this collateral in the event of a default by the counterparty.

Collateral amounts are marked-to-market on a daily basis to ensure that they continue to provide the required risk mitigation value. Securities are marked-to-market daily and haircuts are applied to protect BNYMIL in the event of the value of the collateral suddenly reducing in value due to adverse market conditions.

Currently BNYMIL only receives collateral from other BNYM entities as part of the group's liquidity management strategy. However, there are 'pledge' or 'lien' arrangements in place with some customers such that their assets under custody serve to guarantee any credit exposures arising from loans granted to the customer.

6.3 Wrong-way risk

BNYMIL takes particular care to ensure that wrong-way risk between collateral and exposures does not exist. Wrong-way risk results when the exposure to the counterparty increases when the counterparty's credit quality deteriorates.

6.4 Credit risk concentration

Credit Concentration Risk is the risk of loss resulting from risk concentrations as a result of insufficient diversification (including single name, industry and country concentration risk).

Credit Concentration Risk within BNYMIL originates mostly through BNYMIL's banking activities. BNYMIL has an appetite to place funds only with institutions having an internal rating of 10 or better (equivalent to Moody's/S&P/Fitch external rating of Baa3/BBB-/BBB- respectively). Whilst this approach undoubtedly constrains the number of eligible placement counterparties as well as the deposit spread, it also ensures that exposures are well controlled and less likely to default.

In addition, to assist compliance with the Large Exposures and Shadow Banking Regime, Credit Risk limits placements to individual banks to EUR 150m or to connected groups and shadow banking entities to a maximum of 25% of regulatory capital, in line with CRR requirements.

Table 14: Credit risk mitigation techniques - overview

This table shows the extent of credit risk mitigation techniques utilised by BNYMIL (Consolidated).

31 December 2017 (£m)	Exposures unsecured: carrying amount	Total exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	8,745	1,218	1,218	—	—
Total debt securities	—	—	—	—	—
Total exposures	**8,745**	**1,218**	**1,218**	**—**	**—**
Of which defaulted	—	—	—	—	—

Financial and other eligible collateral can include cash, debt securities, equities or gold, and their values are taken into account for the purposes of calculating the risk weighted exposure amount of the underlying exposure.

There are no exposures covered by guarantees or credit derivatives at 31 December 2017. Using guarantees has the effect of replacing the risk weight of the underling exposure with that of the institution providing the credit protection. Guarantors are primarily rated as investment grade.

7 External credit rating assessment institutions (ECAIs)

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

Risk Weighted Asset density 6%

Total credit risk exposure post CCF and CRM £8,745m

The standardised approach requires BNYMIL to use risk assessments prepared by External Credit Assessment Institutions (ECAIs) to determine the risk weightings applied to rated counterparties. BNYMIL uses S&P Global Ratings, Moody's and Fitch Ratings as its chosen ECAIs. There has been no change to these ECAIs during the year.

Table 15: Mapping of ECAIs credit assessments to credit quality steps

BNYMIL uses Credit Quality Steps (CQS) to calculate the RWAs associated with credit risk exposures. Each CQS maps to the ECAIs' credit assessments.

This table shows the mapping of BNYMIL's nominated ECAIs' credit assessments to the credit quality steps.

Credit quality steps	S&P Global Ratings	Moody's	Fitch Ratings
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB-+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

Table 16: Credit quality steps and risk weights

ECAI risk assessments are used for each exposure class except eligible retail exposures which are assigned a risk weight of 75%. In accordance with the regulations, institutions with a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight different to institutions with a risk weight of more than three months. This distinction is shown in the table below.

This table shows the prescribed risk weights associated with the credit quality steps by exposure class.

Credit quality steps and risk weights	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6
Exposure class	1	2	3	4	5	6
Central governments and central banks	0%	20%	50%	100%	100%	150%
Institutions maturity <= 3 months	20%	20%	20%	50%	50%	150%

Credit quality steps and risk weights	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6
Institutions maturity > 3 months	20%	50%	50%	100%	100%	150%
Corporates	20%	50%	100%	100%	150%	150%
Collective investment undertakings	20%	50%	100%	100%	150%	150%
Unrated institutions	20%	50%	100%	100%	100%	150%

The risk systems maintain the credit quality step mappings to customers in their database. When calculating the risk weighted value of an exposure using the ECAI risk assessments, the system will identify the customer, the maturity of the transaction and the relevant credit quality step to determine the risk weight percentage.

Table 17: Credit risk exposure and Credit Risk Mitigation (CRM) effects

This table shows the effect of the standardised approach on the calculation of capital requirements for BNYMIL (Consolidated). Risk weighted exposure amount (RWA) density provides a synthetic metric on the riskiness of each portfolio.

Exposure class at 31 December 2017 (£m)	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA	RWA density
	balance sheet amount		balance sheet amount			
	On-	Off-	On-	Off-		
Central governments or central banks	7,269	—	7,269	—	—	0%
Institutions	2,202	—	984	—	208	21%
Corporates	226	118	226	—	166	73%
Public sector entities	105	—	105	—	—	0%
Multilateral Development Banks	66	—	66	—	—	0%
Exposures in default (past due)	9	—	9	—	13	150%
Other items	86	—	86	—	117	137%
Total	**9,964**	**118**	**8,745**	**—**	**504**	**6%**

Table 18: Credit risk exposure by asset class and risk weight post CCF and CRM

This table shows the breakdown of exposures for BNYMIL (Consolidated) after the application of both conversion factors and risk mitigation techniques.

Exposure class at 31 December 2017 (£m)	0%	20%	50%	100%	150%	250%	Other	Total
Central governments or central banks	7,269	—	—	—	—	—	—	7,269
Corporates	—	74	3	149	—	—	—	226
Covered bonds	—	—	—	—	—	—	—	—
Institutions	—	947	37	—	—	—	—	984
Multilateral Development Banks	66	—	—	—	—	—	—	66
Other items	—	—	—	65	—	21	—	86

External Credit Rating Assessment Institutions (ECAIs)

Exposure class at 31 December 2017 (£m)	0%	20%	50%	100%	150%	250%	Other	Total
Public sector entities	105	—	—	—	—	—	—	105
International organisations	—	—	—	—	—	—	—	—
Exposures in default (past due)	—	—	—	—	9	—	—	9
Total	**7,440**	**1,020**	**40**	**214**	**9**	**21**	**—**	**8,745**

Exposure class at 31 December 2016 (£m)	0%	20%	50%	100%	150%	250%	Other	Total
Central governments or central banks	4,875	—	—	—	—	—	—	4,875
Corporates	—	—	—	114	—	—	—	114
Covered bonds	—	—	—	—	—	—	—	—
Institutions	—	598	—	—	—	—	—	598
Multilateral Development Banks	—	—	—	—	—	—	—	—
Other items	—	—	—	72	15	22	—	109
Public sector entities	—	—	—	—	—	—	—	—
International organisations	—	—	—	—	—	—	—	—
Total	**4,875**	**598**	**—**	**186**	**15**	**22**	**—**	**5,696**

BNYMIL's deposit base increased significantly during 2017, through a combination of new custody business and the transfer into BNYMIL of UK Trust & Depositary related custody clients from BNYM SA/NV. Most of this additional liquidity was GBP denominated and was place as overnight deposits with the Bank of England, hence the large year on year increase in government exposures.

8 Counterparty credit risk

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

Counterparty credit risk exposure £0m

2016: £20m

Risk Weighted Assets £0m

2016: £4m

Counterparty credit risk is the risk of a counterparty to a contract (recorded in either the trading book or non-trading book) defaulting before fulfillment of cash-flow obligations. The size of the potential loss could be reduced by the application of netting or collateral agreements with the counterparty.

As at 31 December 2017 BNYMIL did not have any trading book positions, or counterparty credit risk originating from banking book derivative positions.

Table 19: Analysis of the counterparty credit risk (CCR) exposure by approach

This table shows a comprehensive view of the methods used to calculate counterparty credit risk regulatory requirements and the main parameters used within each method for BNYMIL (Consolidated).

Counterparty credit risk (£m)		
Derivatives - Mark to Market method	**31 December 2017**	**31 December 2016**
Gross positive fair value of contracts	—	5
Potential future credit exposure	—	15
Netting benefits	—	—
Net current credit exposure	—	20
Net derivatives credit exposure	—	20
Risk Weighted Assets	—	4
SFT - under financial collateral comprehensive method	**31 December 2017**	**31 December 2016**
Net current credit exposure	—	—
Net SFT credit exposure	—	—
Risk Weighted Assets	—	—
Counterparty Credit Risk exposure	**—**	**20**

Note: SFT (Securities Financing Transactions).

8.1 Credit valuation adjustment

The credit valuation adjustment is the capital charge for potential mark-to-market losses due to the credit quality deterioration of a counterparty. The standardised approach uses the external credit rating of each counterparty and includes the effective maturity and exposure at default.

8.1.1 Credit valuation adjustment capital charge

As at 31 December 2017 BNYMIL did not have any trading book positions, or counterparty credit risk originating from banking book derivative positions, hence it is not necessary to disclose table EU CCR2 on credit valuation adjustments.

Table 20: CCR exposures by exposure class and risk weight

This table shows the breakdown of BNYMIL (Consolidated) counterparty credit risk exposures by exposure class and risk weight attributed according to the standardised approach.

31 December 2017 (£m)	0%	20%	50%	100%	150%	Other	Total
Central governments or central banks	—	—	—	—	—	—	—
Corporates	—	—	—	—	—	—	—
Covered bonds	—	—	—	—	—	—	—
Institutions	—	—	—	—	—	—	—
Multilateral Development Banks	—	—	—	—	—	—	—
Other items	—	—	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**—**	**—**	**—**

31 December 2016 (£m)	0%	20%	50%	100%	150%	Other	Total
Central governments or central banks	—	—	—	—	—	—	—
Corporates	—	—	—	—	—	—	—
Covered bonds	—	—	—	—	—	—	—
Institutions	—	20	—	—	—	—	20
Multilateral Development Banks	—	—	—	—	—	—	—
Other items	—	—	—	—	—	—	—
Total	**—**	**20**	**—**	**—**	**—**	**—**	**20**

8.1.2 Impact of netting and collateral held on exposure values

As at 31 December 2017 BNYMIL did not have any trading book positions, or counterparty credit risk originating from banking book derivative positions, hence it is not necessary to disclose table EU CCR5 on the impact of netting and collateral held on exposures for BNYMIL (Consolidated).

9 Asset encumbrance

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

Carrying amount - encumbered assets

£44m

2016: £14m

Carrying amount - unencumbered assets

£10,103m

2016: £6,934m

Table 21: Encumbered assets

BNYMIL (Consolidated) at 31 December 2017 (£m)	Encumbered assets: Carrying amount	Encumbered assets: of which notionally eligible EHQLA and HQLA	Encumbered assets: Fair value	Encumbered assets: of which notionally eligible EHQLA and HQLA	Unencumbered assets: Carrying amount	Unencumbered assets: of which EHQLA and HQLA	Unencumbered assets: Fair value	Unencumbered assets: of which EHQLA and HQLA
Assets of the reporting institution	**44**	**—**			**10,103**	**—**		
Loans on demand	44	—			9,411	—		
Debt securities	—	—	—	—	593	—	593	—
of which: issued by general governments	—	—	—	—	296	—	296	—
of which: issued by non-financial corporations	—	—	—	—	297	—	297	—
Other assets	—	—			99	—		

Note: HQLA (High Quality Liquid Assets) / EHQLA (Extremely High Quality Liquid Assets).

Table 22: Sources of encumbrance

BNYMIL (Consolidated) at 31 December 2017 (£m)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**—**	**—**
Other sources of encumbrance	**—**	**44**
Nominal of loan commitments received	—	—
Nominal of financial guarantees received	—	—
Fair value of securities borrowed with non-cash collateral	—	—
Other	—	44

BNYMIL (Consolidated) at 31 December 2017 (£m)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encumbrance	**—**	**44**

Note: ABS (Asset-Backed Securities).

Encumbered assets for BNYMIL relate solely to its ‘cash ratio deposit’ requirement to hold a minimum level of reserves at the Bank of England. This represents a relatively small proportion of the Company’s total reserves held at the Bank of England.

10 Market risk

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

Market risk exposure amount

£66m

2016: £43m

Market risk capital requirements

£5m

2016: £3m

Market Risk is a systemic risk: movements in markets are beyond the control of BNYMIL. Market Risk to BNYMIL is reviewed below in two contexts: impact on balance sheet and impact on revenues and as a result its profitability.

Market concentration risk can arise either from exposures to a single risk factor or exposures to multiple factors which are correlated. As BNYMIL does not have a trading book, sources of Market Risk are limited to foreign exchange (FX translation) risk (long and short foreign exchange positions) due to revenue flows in different currencies.

Market Liquidity Risk is the risk that a position cannot easily be unwound or offset at short notice without significantly influencing the market price because of inadequate market depth or market disruption. Given the relatively small size of the FX positions, this type of risk is considered immaterial.

The Corporate Treasury FX swap activity is performed for risk mitigating hedging purposes, but is classified as held for trading from an accounting perspective. There is no other trading activity in the Company.

BNYMIL is currently exposed to two types of Market Risk: (a) foreign exchange risk and (b) interest rate risk.

a) Foreign exchange risk in BNYMIL arises from operational flows in foreign currencies as non-UK clients are predominantly billed in US dollars. FX translation risk is the risk that a change in foreign exchange rates will create adverse impacts to the financial performance of the Company. BNYMIL is naturally exposed to this type of risk where there is a currency mismatch between income and costs. In order to mitigate this, open foreign exchange positions on the balance sheet are closed out on a regular basis as they arise, and as a minimum at monthly intervals as set in the respective Corporate Accounting Policy.

b) BNYMIL interest income is subject to the risk that as market interest rates change, BNYMIL cannot pass all of the interest rates change to its clients. Interest Rate Risk in the Banking Book will also arise from maturity or repricing mismatches and from products that include embedded optionality. The risk could crystallise with changes in Interest Rate Risk/the shape of the yield curve.

Table 23: Market risk - risk weighted assets and capital required

This table shows BNYMIL (Consolidated) components of the capital requirements and risk weighted assets for market risk using the standardised approach.

BNYMIL's market risk capital requirement consists solely of foreign exchange risk. (See chapter 11 regarding interest rate risk).

Outright products at 31 December 2017 (£m)	Risk Weighted Assets	Capital requirements
Foreign exchange risk	66	5
Total	**66**	**5**

11 Interest rate risk in the banking book

Commentary is included under the market risk section 10.

Table 24: Net interest income sensitivity by currency

This table shows the net interest income sensitivity by BNYMIL's major transactional currencies.

Currency	+ 100 basis points	- 100 basis points	+ 100 basis points	- 100 basis points
(000s)	2017	2017	2016	2016
GBP	5,085	(5,085)	19,917	(19,917)
USD	(2,096)	2,096	(17,174)	17,174
EUR	64	(64)	(58)	58
Other currencies	(5)	5	15	(15)
Total	**3,048**	**(3,048)**	**2,700**	**(2,700)**
As percentage of net interest income	28%	(28)%	51%	(51)%

12 Operational risk

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

Operational risk exposure amount £366m

2016: £359m

Operational risk capital requirements £29m

2016: £29m

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 reputation 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.

12.1 Operational risk management framework

The Operational Risk Management Framework (ORMF) provides the processes and tools necessary to manage 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 organised way to the appropriate governance bodies.

The ORMF defines roles and responsibilities through the global policy, using the Three Lines of Defence model as a foundation. Thus, responsibility for the management of Operational Risk sits first and foremost with the business and functions.

The first line is principally the businesses and business process owners, who are responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which they are accountable throughout the course of their business activities.

The second line of defence, the independent Risk Management function, is responsible for reviewing and challenging the risks identified, assessed and managed by the first line of defence. EMEA Risk Management, including the Legal Entity Risk Office (LERO), is also responsible for building and maintaining the ORMF framework and partnering the first line of defence to enable them to embed it.

The third line of defence is Internal Audit (organisationally independent from both the first and second line of defence). A key responsibility of the third line as it pertains to the Operational Risk Management Framework is to opine on the adequacy of the framework and governance process.

Therefore, the monitoring and reporting of operational risks occurs within the business, entity and EMEA-region risk oversight functions as well as decision-making forums, such as business risk committees and BNYMIL’s Risk Management Committee.

BNYMIL'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 lines of defence. 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.

BNYMIL uses the ORMF to capture, analyse and monitor its Operational Risks. The tools used to manage the Operational Risks of the business are outlined below. These tools are mandated through individual Operational Risk polices. These activities are prescribed through the enterprise Operational Risk program, assessment systems and related processes, including but not limited to:

Risk Appetite

BNY Mellon defines Risk Appetite as the aggregate level of risk a legal entity is willing to assume after considering topics such as its strategic business objectives and business plan, the major risks facing the legal entity and its risk capacity. BNYMIL has, in line with the Enterprise Risk policy for Risk Appetite, set a Risk Appetite Statement which recognises the inherent nature of Operational Risk and the reliance on the ORMF to mitigate it.

Risk Register

BNYMIL maintains a Risk Register which captures the most material risks associated with the business undertaken and the risk mitigations currently in place. The Risk Register is prepared and owned by the LERO. Senior Risk Officers of each Line of Business (LOB SROs), Risk Management function heads (e.g. Credit Risk) and key representatives from the Lines of Business/Legal Entities contribute to the Risk Register sign off. The Risk Register is presented through the legal entity governance structures and is a living document and is updated regularly, at least annually or upon significant change.

Risk and Control Self Assessments (RCSA)

A comprehensive policy for Business Groups and Business Partners to identify risks associated with key business processes, identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effectiveness of those controls in place to mitigate that risk.

Operational Risk Events (ORE)

A standard for the capture, notification and reporting of Operational Risk Events. The collection of internal loss data provides information for assessing the entity’s exposure to Operational Risk. Analysis of loss events provides insight into the root cause and information on whether a control weakness is isolated or potentially more systemic. Operational Risk Events (OREs) are mapped to Basel II Operational Risk event categories and the impact to BNYMIL is identified. Information on Operational Risk event losses or gains exceeding USD10,000 are analysed to understand root cause(s) and to identify improvements needed in order to reduce the recurrence and/or magnitude of future events. All OREs (over USD10,000) are reviewed for root cause and possible mitigating actions are reported to the RMC monthly.

Key Risk Indicators (KRI)

Key risk metrics designed to monitor activities which could cause financial loss or reputational damage to the legal entity. Periodic and consistent monitoring of KRIs ensures that deviations from predetermined standards can be identified.

High Level Assessments (HLA)

The High Level Assessment is an independent business level qualitative assessment performed by the Business Chief Risk Officer or designees, in consultation with Business Managers for their designated business areas. The assessment analyses the quality of controls in place to mitigate risks, internal and external factors impacting the business, and the risk profile of the business. The HLA is designed to capture risks at a BNY Mellon Group level for key businesses. Being a Business Line exercise, the HLA does not provide specific information on Legal Entities. However, this is a useful source of information for the LERO who needs to form a view on the risks the Business Lines operating in BNYMIL have identified.

Operational Risk Scenario Analysis (ORSA)

Operational Risk Scenario Analysis is used by BNYMIL to identify and assess plausible, high impact, low probability Operational Risk loss events using a combination of the Operational Risk data and expert management judgement. Scenario Analysis provides a broad perspective of risks faced globally based on the expertise of senior business and risk managers and supports an understanding of how significant operational losses could occur. Scenario Analysis also supports, directly or indirectly, the calculation of Operational Risk capital by using the output of Scenario Analysis (frequencies and severities) as an input for Pillar 2A Operational Risk capital modelling.

12.2 Capital resource requirement

BNYMIL calculates the Pillar 1 operational risk capital resource requirement under the standardised approach. BNYMIL's business mainly falls under the Agency Services Basel business line which mandates a 15% beta factor to determine capital from gross income. During 2017 BNYMIL's operational risk exposure amount increased slightly to £366m (2016: £359m) with the capital requirement remaining unchanged at £29m (2016: £29m).

13 Leverage

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

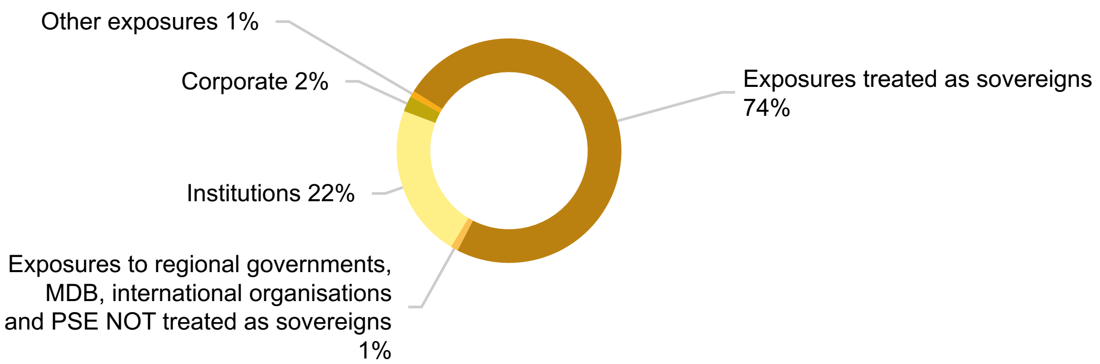
Total leverage ratio exposure £9,975m

2016: £6,805m

Leverage ratio 4.5%

2016: 6.1%

CRR Banking Book Leverage Ratio Exposures



The leverage ratio is calculated by dividing tier 1 capital by a total exposure measure which is comprised of a defined sum of asset exposure values and off-balance sheet items.

Although the BNY Mellon Corporation manages its leverage ratio in line with US regulatory limits, BNYMIL itself is not subject to a leverage ratio requirement in the UK.

Nevertheless BNYMIL monitors its leverage position and reports accordingly. The table below is reflective of the standard EBA reporting format, but BNYMIL is mindful of the exclusion for Bank of England reserves from the leverage exposure value that has been prescribed by the PRA, which would dramatically reduce this value and hence increase the leverage ratio itself.

Table 25: Leverage ratio summary

This table shows BNYMIL (Consolidated) summary reconciliation of accounting assets and leverage ratio exposures.

at 31 December 2017 (£m)	
Total assets as per published financial statements	10,146

at 31 December 2017 (£m)	
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(171)
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013 "CRR"	—
Adjustments for derivative financial instruments	—
Adjustments for securities financing transactions (SFTs)	—
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	12
Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013	—
Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013	—
Other adjustments	(12)
Total leverage ratio exposure	**9,975**

Table 26: Leverage ratio common disclosure

Regulatory leverage ratio exposures at 31 December 2017 (£m)	
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	10,148
Asset amounts deducted in determining Tier 1 capital	(185)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**9,964**
Derivative exposures	
Replacement cost associated with derivatives transactions	—
Add-on amounts for PFE associated with derivatives transactions	—
Exposure determined under Original Exposure Method	—
Total derivative exposures	**—**
Securities financing transaction exposures	
SFT exposure according to Article 220 of CRR	—
SFT exposure according to Article 222 of CRR	—
Total securities financing transaction exposures	**—**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	12
Adjustments for conversion to credit equivalent amounts	—
Total off-balance sheet exposures	**12**
Capital and Total Exposures	
Tier 1 capital	448
Exposures of financial sector entities according to Article 429(4) 2nd of CRR	—
Leverage Ratios	
Total Exposures	**9,975**

Regulatory leverage ratio exposures at 31 December 2017 (£m)	
End of quarter leverage ratio	**4.5%**
Leverage ratio (avg. of the monthly leverage ratios over the quarter)	4.5%
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	Fully phased-in
Amount of derecognised fiduciary items in accordance with Article 429(11) of CRR	0

Table 27: Composition of on-balance sheet exposures

This table shows the composition of on-balance sheet exposures excluding derivatives, SFTs and exempted exposures at 31 December 2017.

CRR leverage ratio exposures (£m)	
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**9,964**
Trading book exposures	—
Banking book exposures, of which:	9,964
Covered bonds	—
Exposures treated as sovereigns	7,335
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	105
Institutions	2,202
Secured by mortgages of immovable properties	—
Retail exposures	—
Corporate	226
Exposures in default	9
Other exposures	86

14 Remuneration

The following risk metrics present BNYMIL's risk components as at 31 December 2017.

Total remuneration	£13.4m
Total deferred variable remuneration outstanding from previous years	£7.2m

Note: In 2016 the Material Risk Takers (MRTs) population was determined using a headcount report and legal entity codes. As a result of the London Branch consolidation in 2017, legal entity codes no longer apply, therefore this population was sourced from Compliance to define the MRTs which were seconded to BNYMIL.

As noted in section 1.9, staff support to BNYMIL is provided by employees contracted with the London Branch of the Bank of New York Mellon under an outsourced service arrangement. BNYMIL is not an employing entity. The following information reflects the employment arrangements of the Bank of New York Mellon.

14.1 Governance

The governance of remuneration matters for BNYM and its group entities, including BNYMIL, is overseen by four committees, each with separate responsibilities in respect of remuneration as summarised below:

Human Resources and Compensation Committee of BNYM (HRCC) is responsible for overseeing BNYM's employee compensation and benefits policies and programmes globally. It reviews and is responsible for the compensation plans, policies and programs in which the senior officers participate and has general oversight for the other incentive, retirement, welfare and equity arrangements for all employees globally. The members of the HRCC are non-executive members of the BNYM's Board of Directors, acting on behalf of the BNYM Board of Directors.

Compensation Oversight Committee of BNYM (COC) is responsible for providing formal input to the remuneration decision-making process (including the review of remuneration policies for BNYM), which includes reviewing and approving both remuneration arrangements annually and any significant changes proposed to remuneration arrangements (including termination of any arrangement) and advising the HRCC of any remuneration-related issues. The members of the COC are senior members of BNYM management, including the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer and the Chief Enterprise Risk Officer.

EMEA Remuneration Governance Committee (ERGC) is a regional governance committee that was established to ensure alignment of remuneration arrangements operated within BNYM EMEA with local laws and regulations impacting on remuneration. The ERGC is responsible for ensuring that local BNYM EMEA offices implement processes and practices that are consistent with the requirements of local regulators and also have oversight of the functioning and decisions taken by the Remuneration Committees of subsidiaries of BNYM (excluding Investment Management), which are incorporated within the EMEA region, with the exclusion of oversight over individual award decisions.

Incentive Compensation Review Committee (ICRC) is the coordinating body of senior executives responsible for the oversight of the process of evaluating and recommending compensation reductions for all employees. These decisions are based on feedback regarding risk, compliance, audit and legal outcomes as well as situations of an employee engaged in fraud or who has directly or indirectly, contributed to a financial restatement or other irregularity. The ICRC is a management-level committee that reports its recommendations to the HRCC. Ex-ante adjustments are recommended by the employee's management for review and approval by the committee and ex post adjustments are formulated by the committee. The Chief Human Resources Officer chairs the committee supported by the Global Head of Compensation and Benefits. Voting members include the Chief Executive Officer, Chief Risk Officer, Chief Compliance Officer, Chief Auditor, Chief Financial Officer and General Counsel.

BNYMIL has delegated responsibility for overseeing the development and implementation of the Company's remuneration policies and practices in accordance with the relevant remuneration rules to the ERGC.

In accordance with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) regulatory remuneration requirements the responsibility for overseeing the development and implementation of the Company's remuneration policies and practices, in relation to prescribed PRA and FCA Senior Managers, is held by the Chairman of Europe. This accountability is accomplished through oversight of policies and practices and delegation of key control processes to the Head of International Compensation & Benefits.

BNY Mellon undergoes an annual attestation process to ensure that its remuneration practices comply with all local laws and regulations as well as best market practice. The implementation of its remuneration policies is subject to an annual independent internal review by the Internal Audit function.

14.2 Aligning pay with performance

BNY Mellon's compensation philosophy is to offer a total compensation opportunity that supports our values, client focus, integrity, teamwork and excellence, which pays for performance, both at the individual and corporate level. Individual and team contributions are valued and rewarded based on how both contribute to business results. In support of this philosophy, variable compensation is used as a means of recognising performance.

Through the compensation philosophy and principles, the interests of employees and shareholders are aligned by encouraging actions that contribute to superior financial performance and long-term shareholder value, by rewarding success and by ensuring that 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, and, where appropriate, granted over equity to align employee remuneration with that of shareholder growth.

14.3 Fixed remuneration

Fixed remuneration is composed of (i) salary and (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.

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 with regards to any variable remuneration element, including zero variable remuneration.

Employees who are directors of one or more BNY Mellon group entities are not remunerated separately in their capacity as a director of those entities. Independent directors of BNY Mellon only receive fixed remuneration, as disclosed in the annual Proxy Statement to shareholders.

14.4 Ratio between fixed and variable pay

In respect of remuneration to material risk takers (MRTs) as determined under the requirements of the PRA and FCA, the shareholder of BNYMIL, The Bank of New York Mellon Corporation, approved an increase in the maximum ratio of Variable to Fixed pay from 100% to 200%. This increase was confirmed by the HRCC on 27 January 2014 on the grounds that the increased ratio would not affect the Company's ability to maintain a sound capital base, and allows for appropriate incentivisation and reward in accordance with our Pay for Performance philosophy.

14.5 Variable compensation funding and risk adjustment

Employees of BNYMIL are eligible to be awarded variable compensation but have no entitlement to such awards which are discretionary in nature.

In general, the incentive pools for the business lines are based on the profitability of each business line, with the potential for adjustment by the COC on the basis of a number of factors, including risk management.

Typically, the line of business incentive plans are determined primarily based on pre-tax income, which is a profit rather than revenue based measure. The plans are subject to discretionary adjustment by the business head, COC and HRCC based on factors in assessing the earnings including (but not limited to) significant non-recurring activity, market conditions, interest and currency rates.

The incentive pools for the business partner groups are based on a management approved fixed pool, adjusted for a number of factors, including corporate performance and risk management.

Variable compensation may consist of both cash and equity and both upfront and deferred components and is determined by the functional hierarchy of the business or business partner service to which the individual staff member belongs, and in accordance with the terms and conditions of the incentive compensation plan that is applicable for the business or business partner service.

For MRTs, the variable compensation portion of an award comprises four different parts: upfront cash, upfront equity, deferred cash and deferred equity, in order to comply with local regulations. The deferred compensation component awarded in the form of BNY Mellon restricted stock units aligns a portion of the variable compensation award with the management of longer-term business risk.

To ensure effective risk adjustment, BNY Mellon requires employees who receive variable remuneration awards (both upfront and deferred) to agree to forfeiture and clawback of such awards in the event of fraud, misconduct or actions contributing to the detriment of business interests, including competing with the business and soliciting employees or clients. Where required by regulations, awards to MRTs are subject to more stringent risk adjustment, including, but not limited to, forfeiture and clawback in the event of employee misbehaviour, material error, material downturn in business unit performance or a material failure of risk management.

14.6 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 with vesting on an annual one-third basis (albeit such compensation may be deferred for longer periods and with a revised vesting schedule, and, for MRTs, in line with regulatory requirements), and will normally be subject to the employee remaining in employment until the deferred payment date (unless provided otherwise under national law). The deferred component of the variable compensation award is usually delivered as restricted stock units whose value is linked to BNY Mellon's share price. The percentage of the variable compensation award to be deferred depends on the level and responsibility of the individual's role (including if they are a MRT), regulatory requirements and the amount and value of the award.

14.7 Variable remuneration of control function staff

The variable compensation awarded to control function staff (e.g. audit, compliance and risk) is dependent on performance that is assessed according to the achievement of objectives specific to their functional role that is independent of the activities they oversee. 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.

14.8 Quantitative disclosures

The tables below provide details of the aggregate remuneration of senior management and MRTs for BNYMIL for the year ending 31 December 2017.

The figures illustrate two sets of data:

- BNYMIL Consolidated - which includes MRTs under BNYM (International) Limited, BNYM (International) Limited - Luxembourg Branch and BNYM Trust & Depositary (UK) Limited
- BNYMIL Solo - which includes MRTs under BNYM (International) Limited and BNYM (International) Limited - Luxembourg Branch

Both sets of data (see paragraph 1.7) also include staff who are contracted to the London Branch of the Institutional Bank but have a material impact on BNYMIL.

For completeness, this group of staff is limited to those identified as MRTs. The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of BNYMIL to reflect the full reporting period.

Table 28: Aggregate remuneration expenditure by business

This table shows the aggregate remuneration expenditure for MRTs in 2017 by business.

	BNYMIL (Consolidated)			BNYMIL (Solo)		
(£m)	Investment services	Other [2]	Total	Investment services	Other [2]	Total
Total remuneration [1]	4.27	9.13	13.40	4.27	9.13	13.40

[1]Includes base salary and other cash allowances, plus any incentive awarded for full year 2017. Pension contribution is not included.

[2]Includes all support functions and general management positions.

Table 29: Aggregate remuneration expenditure by remuneration type

This table shows the aggregate remuneration expenditure for MRTs by remuneration type.

	BNYMIL (Consolidated)			BNYMIL (Solo)		
	Senior management(3)	Other MRTs	Total	Senior management(3)	Other MRTs	Total
Number of beneficiaries	3	52	55	3	52	55
Fixed remuneration (£000s) (4)	850	8,535	9,385	850	8,535	9,385
Total variable remuneration (£000s)	241	3,772	4,013	241	3,772	4,013
Variable cash (£000s)	91	2,032	2,123	91	2,032	2,123
Variable shares (£000s)	150	1,740	1,890	150	1,740	1,890
Total deferred remuneration awarded during the financial year (£000s)	132	1,482	1,614	132	1,482	1,614
Total deferred remuneration paid out during the financial year (£000s)	348	2,766	3,114	348	2,766	3,114
Total deferred remuneration reduced through performance adjustments (£000s)	—	—	—	—	—	—

[3]Senior management is comprised of MRTs categorised as 'Senior Managers' who carry out a senior management function as determined by the relevant regulators.

[4]Fixed remuneration includes base salary and any cash allowances. Pension contribution is not included.

Table 30: Deferred variable remuneration

This table shows the total deferred remuneration for MRTs outstanding from previous years.

	BNYMIL (Consolidated)			BNYMIL (Solo)		
	Senior management	Other MRTs	Total	Senior management	Other MRTs	Total
Number of beneficiaries	3	48	51	3	48	51
Total deferred variable remuneration outstanding from previous years (£000s)	717	7,183	7,900	717	7,183	7,900
Total vested (£000s) (5)	348	2,766	3,114	348	2,766	3,114
Total unvested (£000s) (6)	369	4,417	4,786	369	4,417	4,786

[5]Includes total vested cash and equity. Equity portion is valued as at the date the award vested.

[6]Total unvested equity is valued as at 1st February, 2018.

Table 31: New sign-on and severance payments

This table shows the number and value of severance payments made during 2017.

	BNYMIL (Consolidated)			BNYMIL (Solo)		
	Senior management	Other MRTs	Total	Senior management	Other MRTs	Total
Number of severance payments awarded	—	2	2	—	2	2
Value of severance payments awarded (£000s)	—	265	265	—	265	265
Highest individual severance payment awarded (£000s)	—	215	215	—	215	215

In regards to 2017 awards, BNYMIL did not award any sign-on payments. There were also no individuals remunerated GBP 1 million or more.

Appendix 1 Other Risks

Liquidity risk

BNYMIL defines Liquidity risk as the inability to access funding, convert assets to cash quickly and efficiently, or to roll over or issue new debt, especially during periods of market stress, at a reasonable cost in order to meet its short-term (up to one year) obligations.

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

BNYMIL aims to be self-sufficient for liquidity and seeks to maintain a liquid balance sheet at all times. BNYMIL'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 stability. BNYMIL also has intercompany rolling term deposits on its balance sheet for large exposure management purposes and to improve its term liquidity structure in line with liquidity stress testing results. BNYMIL maintains ample liquidity for day-to-day changes in deposit funding. Apart from operational client overdrafts, BNYMIL does not extend loans to clients and therefore funding assets is not a significant use of liquidity. While sizeable overdrafts can periodically appear on BNYMIL's balance sheet and are typically short term in nature, large deposits offset these amounts.

Business and financial risk

Regulatory risk

Regulatory risk is the risk resulting from non-compliance with, violations of, or non-observance with applicable rules, regulations, laws, ethical standards and related policies and procedures. The inability or failure to fully implement changes to applicable rules and regulations would also constitute Regulatory risk.

This risk potentially exposes the Company to both direct and indirect financial consequences. Direct consequences include: potential fines, civil money penalties, payment of damages, voiding of contracts and restrictions/cancellation of permissions. Indirect consequences include reputational damage, lost business opportunities, reduced expansion potential and remediation costs.

BNYMIL aims to fully comply with the applicable laws, regulations, policies, procedures and BNY Mellon Code of Conduct and related corporate and regional policies and procedures.

The Compliance department is principally responsible for helping to protect BNYMIL from regulatory risk by ensuring BNYMIL is aware of and complies with applicable regulations, to ensure adherence with new regulations and to manage all compliance matters such as regulatory communications and examinations.

Conduct risk

Conduct risk is defined as the risk that detriment is caused to clients, the market, the Company or its employees because of inappropriate execution of our business activities or inappropriate behavior by the Company or its employees.

Legal risk

Legal risk is the risk of inadequate legal advice, inadequate contractual arrangements and failing to take appropriate legal measures to protect rights or changes in laws or regulations. Legal risk could crystallise through:

- Receipt or provision of wrong or inadequate legal advice
- Failure to manage litigation or disputes effectively
- Failure to identify and implement changes in legislation or law
- Failure to appropriately make notifications required as a result of legal requirements
- Failure to ensure adequate contractual arrangements (excluding outsourcing arrangements)
- Failure to manage and/or protect the infringement of rights arising outside of contracts

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 tends to occur when payments are not exchanged simultaneously such as in a multi-leg swap trade.

BNYMIL has very limited settlement risk as it does not operate a trading book. It does however have an investment portfolio. This portfolio does not generate material settlement risk as all transactions settle on a delivery versus payment (DVP) basis. Since January 2014, the bank transacts FX trades for banking book purposes with intra-group legal entities and trades are settled within one business day. To date, BNYMIL has not experienced any unsettled FX transactions.

Non-trading book exposures in equities

BNYMIL did not have any non-trading book exposures in equities as at 31 December 2017 or during the reporting period.

Securitisation risk

Securitisation risk is the risk that the capital resources held in respect of assets that BNYMIL has securitised is insufficient to cover associated liabilities. As at 31 December 2017 and during the reporting period BNYMIL did not have any securitisation risk-weighted exposure.

Outsourcing risk

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

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.

Concentration risk

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

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

BNYMIL manages concentration risk as part of its credit, market, operational and liquidity management policies.

Group risk

Group risk is the risk that the financial position of BNYMIL may be adversely affected by its relationships (financial and non-financial) with other entities within BNY Mellon or by risks which may affect the financial position of the entire Group, for example reputational contagion or Group default.

As part of a large complex and interconnected company, BNYMIL has a number of dependencies on BNY Mellon. These include business leadership, dependency on certain IT systems and support services provided by central functions.

Model risk

Model risk refers to risk of loss from the reliance on models, proxy-pricing methodologies, as well as on expert judgement in the valuation of (illiquid) assets.

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 and particularly the business acceptance process. Strategic risk can result from either a misalignment between strategic decisions taken at business level and the resources which impact BNYMIL, or failure to deliver business value through new strategic initiatives.

Country risk

Country risk is the risk of potential loss of assets deposited or held in a foreign country. This can arise from political, economic or social changes, or from the imposition of conversion or transfer restrictions. This could be due to a change in regulations that could affect the free flow and ultimate control of foreign securities or currencies.

Appendix 2 Glossary of Terms

The following terms are used in this document:

- **ALCO:** Asset and Liability Committee
- **Basel III:** The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010
- **BNY Mellon:** The Bank of New York Mellon Corporation
- **CRD IV:** On 27 June 2013, the European Commission published, through the Official Journal of the European Union, its legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR), which together form the CRD IV package. Amendments published on 30 November 2013 were made to the Regulation. The package implements the Basel III reforms in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. CRD IV rules apply from 1 January 2014 onwards, with certain requirements set to be phased in
- **Capital Requirements Directive (CRD):** A capital adequacy legislative package issued by the European Commission and adopted by EU member states
- **Capital Requirements Regulation (CRR):** Regulation that is directly applicable to anyone in the European Union and is not transposed into national law
- **Common Equity Tier 1 capital:** The highest quality form of regulatory capital under Basel III comprising common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments
- **Core Tier 1 capital:** Called-up share capital and eligible reserves plus equity non-controlling interests, less intangible assets and other regulatory deductions
- **Credit risk mitigation (CRM):** A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection
- **Derivatives:** A derivative is a financial instrument that derives its value from one or more underlying assets, for example bonds or currencies
- **EMEA:** Europe, Middle-East and Africa region
- **Exposure:** A claim, contingent claim or position which carries a risk of financial loss
- **Exposure at default (EAD):** The amount expected to be outstanding, after any credit risk mitigation, if and when a counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures over a one-year time horizon
- **Financial Conduct Authority (FCA):** The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms, prudential standards in the UK. It has a strategic objective to ensure that the relevant markets function well
- **High Level Assessment (HLA):** An assessment of the quality of controls in place to mitigate risk and residual risk. Residual risk is assessed as high, moderate to high, moderate, moderate to low and low with direction anticipated
- **Institutions:** Under the standardised approach, institutions are classified as credit institutions or investment firms
- **Internal Capital Adequacy Assessment Process (ICAAP):** The group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints

- **ISDA Master Agreement:** A document that outlines the terms applied to a derivatives transaction between two parties. Once the two parties have agreed to the standard terms, they do not have to renegotiate each time a new transaction is entered into
- **Key Risk Indicator (KRI):** Key Risk Indicators are used by business lines to evaluate control effectiveness and residual risk within a business process
- **Master Netting Agreement:** An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract
- **Pillar 3:** The part of Basel III that sets out information banks must disclose about their risks, the amount of capital required to absorb them and their approach to risk management. The aim is to encourage market discipline and improve the information made available to the market
- **Prudential Regulation Authority (PRA):** The statutory body responsible for the prudential supervision of banks, building societies, credit unions, insurers and major investment firms in the UK. The PRA is a subsidiary of the Bank of England
- **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:** BNYMIL's risk governance framework has been developed in conjunction with BNY Mellon requirements. Key elements of the framework are:
  - Formal governance committees, with mandates and defined attendees
  - Clearly defined escalation processes, both informally (management lines) and formally (governance committees, board, etc.)
  - A clear business as usual process for identification, management and control of risks
  - Regular reporting of risk issues
- **Risk Management Committee (RMC):** A committee which meets on a monthly basis to provide governance on risk related items arising from the business of the group
- **Risk Weighted Assets (RWA):** Assets that are adjusted for their associated risks using weightings established in accordance with CRD IV requirements
- **Standardised approach:** Method used to calculate credit risk capital requirements using the Basel III, CRD IV, CRR models supplied by the BCBS. All financial institutions must opt to either use the standardised approach (SA) specified by the regulator, or develop and use their own Internal Ratings Model (IRM). The SA model uses external credit assessment institution ratings and supervisory risk weights supplied by external credit assessment agencies
- **Tier 2 capital:** A component of regulatory capital under Basel III, mainly comprising qualifying subordinated loan capital, related non-controlling interests and eligible collective impairment allowances
- **Value-at-Risk (VaR):** A measure of the potential loss at a specified confidence level from adverse market movements in an ordinary market environment

Appendix 3 CRD IV Mapping Reference

CRR ref.	Requirement summary	Compliance ref.	Page ref.
Scope of disclosure requirements			
431 (1)	Institutions shall publish Pillar 3 disclosures	BNY Mellon publishes Pillar 3 disclosures	N/A
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information	N/A	N/A
431 (3)	Institutions shall adopt a formal policy to comply with the disclosure requirements	BNY Mellon has a dedicated Pillar 3 policy	N/A
431 (4)	Explanation of ratings decision upon request	N/A	N/A
Non-material, proprietary or confidential information			
432 (1)	Institutions may omit disclosures if the information is not regarded as material (except Articles 435(2) (c), 437 and 450)	Refer to Pillar 3 policy	N/A
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected	Refer to Pillar 3 policy	N/A
432 (3)	Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed	N/A	N/A
432 (4)	Paragraphs 1, 2 & 3 are without prejudice to the scope of the liability for failure to disclose material information		
Frequency of disclosure			
433	Institutions shall publish the disclosures required at least on an annual basis, in conjunction with the date of the publication of the financial statements	Refer to Pillar 3 policy	N/A
Means of disclosure			
434 (1)	Institutions may determine the appropriate medium, location and means of verification to comply effectively	Single Pillar 3 disclosure	N/A
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate	Any cross-references to accounting or other disclosures are clearly signposted in this document	N/A
Risk management objectives and policies			
435 (1)	Institutions shall disclose their risk management objectives and policies	Section 4 Risk management objectives and policy	26
435 (1) (a)	Strategies and processes to manage those risks	Section 4 Risk management objectives and policy	26
435 (1) (b)	Structure and organisation of the risk management function	Section 4.1 Risk governance	26
435 (1) (c)	Scope and nature of risk reporting and measurement systems	Section 4.1 - 4.15	26
435 (1) (d)	Policies for hedging and mitigating risk	Section 4.3 - 4.15	30
435 (1) (e)	Approved declaration on the adequacy of risk management arrangements	Section 4 Risk management objectives and policy	26
435 (1) (f)	Approved risk statement describing the overall risk profile associated with business strategy	Section 4 Risk management objectives and policy	26
435 (2) (a)	Number of directorships held by directors	Section 4.1.1 Board of Directors	27
435 (2) (b)	Recruitment policy of Board members, their experience and expertise	Section 4.1.1 Board of Directors	27
435 (2) (c)	Policy on diversity of Board membership and results against targets	Section 4.1.1 Board of Directors	27

435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year	Section 4.1.2 - 4.1.4	28
435 (2) (e)	Description of information flow on risk to Board	Section 4.1.2 - 4.1.4	28
Scope of application			
436 (a)	The name of the institution to which the requirements of this Regulation apply	Section 1 Scope of application	6
436 (b) 436 (b) (i) 436 (b) (ii) 436 (b) (iii) 436 (b) (iv)	Outline the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: fully consolidated; proportionally consolidated; deducted from own funds; neither consolidated nor deducted	Section 1 Scope of application	6
436 (c)	Current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	N/A	N/A
436 (d)	Aggregate amount by which the actual Own Funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	N/A - Entities outside the scope of consolidation are appropriately capitalised	N/A
436 (e)	If applicable, the circumstance of making use of the provisions laid down in Articles 7 & 9	N/A	N/A
Own funds			
437 (1)	Requirements regarding capital resources table	Section 2 Own funds	17
437 (1) (a)	Full reconciliation of Common Equity Tier 1 (CET1) items	Table 2: Regulatory adjustments	17
437 (1) (b)	Description of the main features of the CET1 and Additional Tier 1 and Tier 2 instruments	Table 3: Composition of regulatory capital	19
437 (1) (c)	Full terms and conditions of all CET1, Additional Tier 1 and Tier 2 instruments	Table 3: Composition of regulatory capital	19
437 (1) (d) (i) 437 (1) (d) (ii) 437 (1) (d) (iii)	Each prudent filter applied Each deduction made Items not deducted	Table 2: Regulatory adjustments	17
437 (1) (e)	Description of all restrictions applied to the calculation of Own Funds	N/A - no restrictions apply	N/A
437 (1) (f)	Explanation of the basis of calculating capital ratios using elements of Own Funds	N/A - Capital ratios calculated on basis stipulated in the regulations	N/A
437 (2)	EBA to publish implementation standards for points above	BNYMIL follows the implementation standards	N/A
Capital requirements			
438 (a)	Summary of institution's approach to assessing adequacy of capital levels	Section 3 Capital requirements	24
438 (b)	Result of ICAAP on demand from authorities	N/A	N/A
438 (c)	Capital requirement amounts for credit risk for each standardised approach exposure class	Table 7: Standardised credit exposure by exposure class	38
438 (d) 438 (d) (i) 438 (d) (ii) 438 (d) (iii) 438 (d) (iv)	Capital requirements amounts for credit risk for each internal ratings based approach exposure class	N/A - internal ratings based approach is not used	N/A
438 (e)	Own funds requirements for market risk or settlement risk, or large exposures where they exceed limits	Table 6: Capital requirements and Section 10: Market risk	24 & 54

438 (f)	Own funds amounts for operational risk, separately for the basic indicator approach, the standardised approach, and the advanced measurement approaches as applicable	Table 6: Capital requirements and Section 12: Operational risk	24 & 57
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach	Table 6: Capital requirements	24
Exposure to counterparty credit risk (CCR)			
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures	Section 8 Counterparty credit risk	49
439 (b)	Discussion of process to secure collateral and establishing reserves	Section 8 Counterparty credit risk	49
439 (c)	Discussion of management of wrong-way exposures	Section 8 Counterparty credit risk	49
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade	N/A - a credit ratings downgrade is managed at the BNYM Corp level	N/A
439 (e)	Derivation of net derivative credit exposure	Section 8 Counterparty credit risk	49
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Section 8 Counterparty credit risk	49
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	N/A - BNYMIL does not have credit derivative transactions	N/A
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type	N/A - BNYMIL does not have credit derivative transactions	N/A
439 (i)	Estimate of alpha, if applicable	N/A	N/A
Capital buffers			
440 (1) (a)	Geographical distribution of relevant credit exposures	N/A	N/A
440 (1) (b)	Amount of the institution specific countercyclical capital buffer	N/A	N/A
440 (2)	EBA will issue technical implementation standards related to 440 (1)	N/A	N/A
Indicators of global systemic importance			
441 (1)	Disclosure of the indicators of global systemic importance	N/A	N/A
441 (2)	EBA will issue technical implementation standards related to 441 (1)	N/A	N/A
Credit risk adjustments			
442 (a)	Disclosure of bank's definitions of past due and impaired	Section 5.7 Analysis of past due and impaired exposures	40
442 (b)	Approaches for calculating credit risk adjustments	Section 5.7 Analysis of past due and impaired exposures	40
442 (c)	Disclosure of pre-CRM EAD by exposure class	Section 5.6 Table 7: Standardised credit exposure by exposure class	38
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class	Section 5.6 Table 8: Standardised credit exposure by country	39
442 (e)	Disclosures of pre-CRM EAD by industry and exposure class	Section 5.6 Table 9: Standardised post mitigated credit exposures by counterparty type	40
442 (f)	Disclosures of pre-CRM EAD by residual maturity and exposure class	Section 5.6 Table 10: Standardised credit exposure by residual maturity	40
442 (g) 442 (g) (i) 442 (g) (ii) 442 (g) (iii)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type	Section 5.7 Table 11: Credit quality of exposures by counterparty type	41

442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography	Section 5.7 Table 13: Credit quality of exposures by geographical breakdown	42
442 (i) 442 (i) (i) 442 (i) (ii) 442 (i) (iii) 442 (i) (iv) 442 (i) (v)	Reconciliation of changes in specific and general credit risk adjustments	Section 5.7 Analysis of past due and impaired exposures	40
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately	Section 5.7 Analysis of past due and impaired exposures	40
Unencumbered assets			
443	Disclosures on unencumbered assets	Section 9 Asset encumbrance	52
Use of ECAIs			
444 (a)	Names of the ECAIs used in the calculation of standardised approach RWAs, and reasons for any changes	Section 7 External credit assessment institutions (ECAIs)	46
444 (b)	Exposure classes associated with each ECAI	Section 7 Table 16: Credit quality steps and risk weights	46
444 (c)	Explanation of the process for translating external ratings into credit quality steps	Section 7 Table 16: Credit quality steps and risk weights	46
444 (d)	Mapping of external rating to credit quality steps	Section 7 External credit assessment institutions (ECAIs)	46
444 (e)	Exposure value pre and post-credit risk mitigation, by credit quality step	Section 7 Table 15-18: External credit assessment institutions (ECAIs)	46
Exposure to market risk			
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	Section 10 Market risk	54
Operational risk			
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered	Section 12 Operational risk	57
Exposure in equities not included in the trading book			
447 (a)	Differentiation of exposures based on objectives	Appendix 1 Settlement risk: no non-trading book exposure in equities	70
447 (b)	Recorded and fair value, and actual prices of exchange traded equity where it differs from fair value	Appendix 1 Settlement risk: no non-trading book exposure in equities	70
447 (c)	Types, nature and amounts of the relevant classes of equity exposures	Appendix 1 Settlement risk: no non-trading book exposure in equities	70
447 (d)	Realised cumulative gains and losses on sales over the period	Appendix 1 Settlement risk: no non-trading book exposure in equities	70
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital	Appendix 1 Settlement risk: no non-trading book exposure in equities	70
Exposure to interest rate risk on positions not included in the trading book			
448 (a)	Nature of risk and key assumptions in measurement models	Section 10: Market risk. The Bank has no significant balance sheet interest rate risk because no maturity mismatch exists between client cash deposits and Bank's cash holdings. In addition, interest rates applicable to clients' cash deposits are market driven	54
448 (b)	Variation in earnings or economic value, or other measures used by the bank from upward and downward shocks to interest rates, by currency	Section 11 Table 24: Net interest income sensitivity by currency	56
Exposure to securitisation positions			

449	Exposure to securitisations positions	Appendix 1 Settlement risk: no non-trading book exposure in equities	70
Remuneration disclosures			
450	Remuneration disclosure regarding remuneration policy and practices	Section 14 Remuneration disclosure	63
450 (1) (a)	Information concerning the decision-making process used for determining the remuneration policy	Section 14.1 Governance	63
450 (1) (b)	Information on link between pay and performance	Section 14.2 Aligning pay with performance	64
450 (1) (c)	Important design characteristics of the remuneration system	Section 14 Remuneration disclosure	63
450 (1) (d)	Ratios between fixed and variable remuneration	Section 14.4 Ratio between fixed and variable pay	65
450 (1) (e)	Information on the performance criteria on which the entitlement to shares, options and variable components of remuneration is based	Section 14.6 Deferral policy and vesting criteria	66
450 (1) (f)	Main parameters and rationale for any variable component scheme and any other non-cash benefits	Section 14.7 Variable remuneration of control function staff	66
450 (1) (g)	Aggregate quantitative information on remuneration by business area	Section 14.8 Table 28: Aggregate remuneration expenditure by business	66
450 (1) (h) 450 (1) (h) (i) 450 (1) (h) (ii) 450 (1) (h) (iii) 450 (1) (h) (iv) 450 (1) (h) (v) 450 (1) (h) (vi)	Aggregate quantitative information on remuneration, broken down by senior staff management and members of staff whose actions have a material impact on the risk profile	Section 14.8 Table 29: Aggregate remuneration expenditure by remuneration type	67
450 (1) (i)	Number of individuals being remunerated £1 million or more per financial year	Section 14.8 Quantitative disclosures	66
450 (1) (j)	Total remuneration for each member of the management body upon demand from the Member State or competent authority	N/A	N/A
450 (2)	For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information above shall be made available to the public at the level of members of the management body of the institution	N/A	N/A
Leverage			
451 (1) (a)	Leverage ratio	Section 13 Leverage	60
451 (1) (b)	Breakdown of total exposure measure	Section 13 Table 26: Leverage ratio common disclosure	61
451 (1) (c)	Derecognised fiduciary items	N/A	N/A
451 (1) (d)	Description of the process used to manage the risk of excessive leverage	N/A	N/A
451 (1) (e)	Description of the factors that had an impact on the leverage ratio	Section 13 Leverage	60
451 (2)	EBA to publish implementation standards for points above	BNYM follows the implementation standards	N/A
Use of the IRB approach to credit risk			
452	Risk-weighted exposure under the IRB approach	N/A	N/A
Use of credit risk mitigation techniques			
453 (a)	Use of on- and off-balance sheet netting	Section 6.1 Netting	44

453 (b)	How collateral valuation is managed	Section 6.2 Collateral valuation and management	44
453 (c)	Description of types of collateral used	Section 6.2 Collateral valuation and management	44
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	N/A - BNYM's EMEA entities do not enter into credit derivative transactions	N/A
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures	Section 6.4 Credit risk concentration	45
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	N/A	N/A
453 (g)	Exposures covered by guarantees or credit derivatives	Section 6.4 Table 14: Credit risk mitigation techniques - overview	45
Use of the Advanced Measurement Approaches to operational risk			
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk	N/A - Pillar 1 : standardized approach, Pillar 2 : self-assessment approach	N/A
Use of internal market risk models			
455	Institutions calculating their capital requirements using internal market risk models	N/A	N/A
Commission Implementing Regulation (EU) No 1423/2013			
Article 1	Specifies uniform templates for the purposes of disclosure	N/A	N/A
Article 2	Full reconciliation of own funds items to audited financial statements	Section 2 Own funds	17
Article 3	Description of the main features of CET1, AT1 and Tier 2 instruments issued (Annex II and III)	Table 5: Common tier 1 and additional tier 1 instruments and tier 2 instruments	22
Article 4	Disclosure of nature and amounts of specific items on own funds (Annex IV and V)	Table 4: Transitional own funds	20
Article 5	Disclosure of nature and amounts of specific items on own funds during transitional period (Annex VI and VII)	Table 4: Transitional own funds	20
Article 6	Entry into force from 31 March 2014	N/A	N/A

THE BANK OF NEW YORK MELLON (INTERNATIONAL)
LIMITED
ONE CANADA SQUARE
CANARY WHARF
LONDON E14 5AL, UNITED KINGDOM
+44 20 7570 1784

bnymellon.com