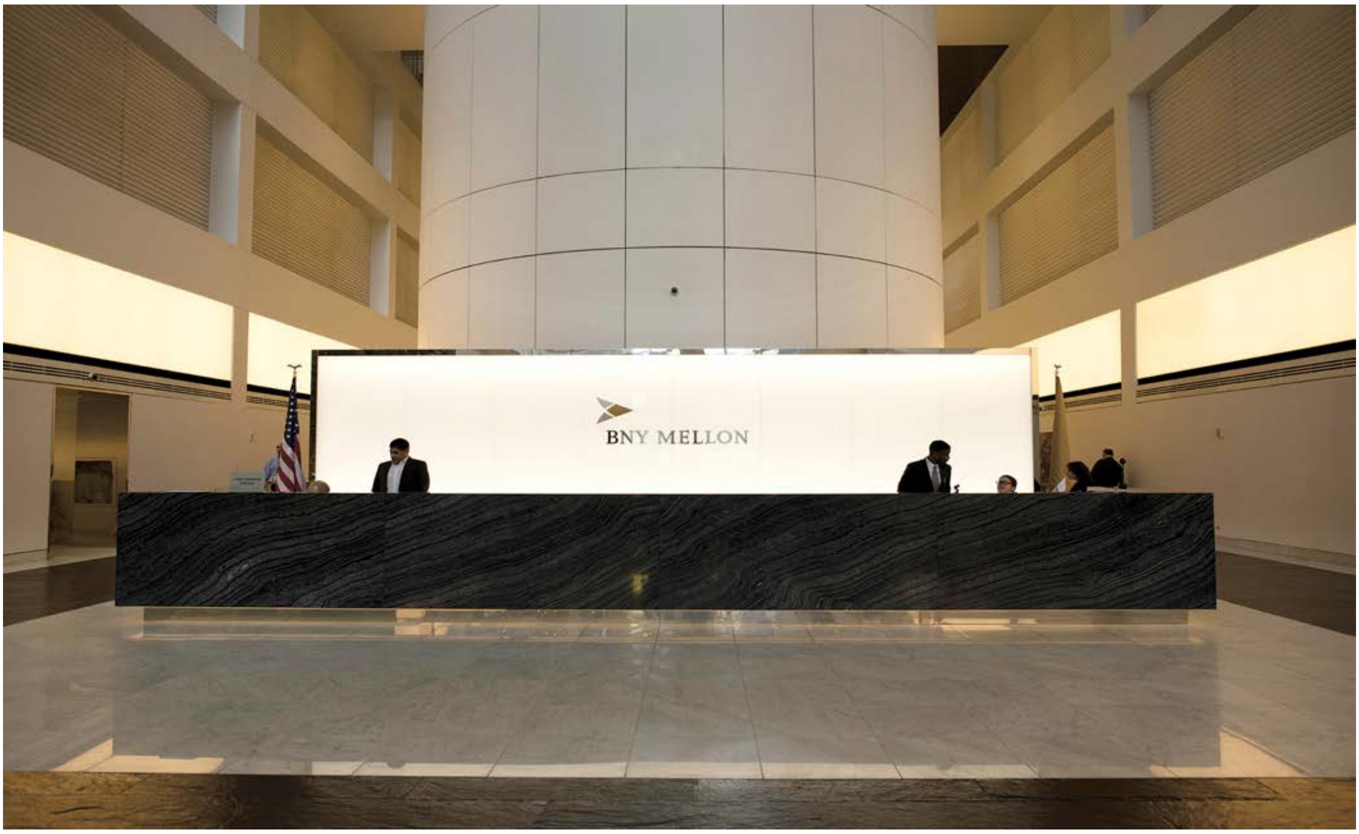
BNY MELLON

THE BANK OF NEW YORK MELLON
S.A./N.V.

Pillar 3 Disclosure

December 31, 2017

Contents


BNY MELLON

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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 Introduction

These Pillar 3 disclosures are published for The Bank of New York Mellon SA/NV ('BNYM SA/NV' or the 'Company'), in line with the disclosure principles of the National Bank of Belgium[1] ('NBB'), the Capital Requirements Directive[3] ('CRD IV') and the Capital Requirements Regulation[2] ('CRR'), complementing the annual disclosures of the financial statements.

These disclosures cover The Bank of New York Mellon SA/NV, its subsidiary undertaking and branches as at December 31, 2017.

These disclosures were approved by the BNYM SA/NV Board of Directors (the 'Board') on April 18, 2018.

The following risk metrics present BNYM SA/NV's key risk components as at 31 December 2017. Please see page 13 for the full comprehensive list of capital ratios.

Common Equity Tier 1 ratio	74.2% 2016: 68.1%
Common Equity Tier 1 capital	€2,774m 2016: €2,330m
Total Risk Weighted Assets	€3,740m 2016: €3,421m
Basel III leverage ratio (This ratio is for information only. BNYM SA/NV is not subject to a binding leverage requirement)	7.2% 2016: 6.2%

[1] NBB Circular 2015_25: Orientations relatives à la publication d'informations (Pilier III, CRD IV), 3 September 2015.

[2] Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, 26 June 2013.

[3] Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, 26 June 2013.

1.1 Purpose of Pillar 3

The aim of the Pillar 3 disclosures is to provide market participants with accurate and comprehensive information regarding the risk profile of BNYM SA/NV, including key information around on the scope of application, capital, risk exposures, risk assessment processes, enabling users to better understand and compare its business, its risks and capital adequacy.

To that end, Pillar 3 principles require disclosure of risk management objectives and policies for each of the following categories of risk and relevant quantitative risk assessment disclosures:

- Credit risk
- Counterparty credit risk
- Market risk
- Credit valuation adjustment
- Securitisation
- Operational risk
- Interest rate risk in the banking book

These disclosures focus only on those risk categories that are relevant to BNYM SA/NV.

Where appropriate, the disclosures also include comparatives for the prior year and an analysis of the more significant movements to provide greater insight into the risk management practices of BNYM SA/NV and its risk profile.

In addition, Pillar III disclosures include detailed information on remuneration policies and practices for members of staff whose activities have a material impact on BNYM SA/NV's risk profile.

1.2 Disclosure Policy

Pillar 3 disclosures for BNYM SA/NV and its only subsidiary, Frankfurter Service Kapitalverwaltungs-Gesellschaft mbH ('BNYMSKVG'), are published at a fully consolidated level.

Pillar 3 disclosures are approved by The Bank of New York Mellon SA/NV's Board of Directors (the 'Board'), that has verified that they are consistent with formal policies adopted regarding production and validation.

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

Disclosure will be made annually and will be published in conjunction with the date of publication of the financial statements. Following publication of the EBA guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 of December 2016, BNYM SA/NV will also publish quarterly and semi-annual disclosures effective from 1 January 2018. BNYM SA/NV will reassess the need to publish some or all of the disclosures more frequently in light of any significant change to the relevant characteristics of its business including disclosures about capital resources and adequacy, information about risk exposure and other items prone to rapid change.

Disclosures will be published on The Bank of New York Mellon Group website (www.bnymellon.com/Pillar3), see section investor relations, financial reports, other regulatory filings on the Company's website.

Pillar 3 disclosures are prepared solely to meet Pillar 3 disclosure requirements and for no other purpose. These disclosures do not constitute any form of financial statement on the business nor do they constitute any form of contemporary or forward looking record or opinion about the business.

BNYM SA/NV 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.

1.3 Confidential and Non Material Information

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 BNYM SA/NV 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 BNYM SA/NV's competitive position or the competitive position of the BNY Mellon group. It may include information on products or systems which, if shared with competitors, would render investment in BNYM SA/NV or the BNY Mellon group 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 proprietary or confidential.

1.4 Board Approval

These disclosures were approved for publication by the Board on 18 April 2018. The Board approved the adequacy of BNYM SA/NV's risk management arrangements, providing assurance that the risk management systems put in place are adequate with regard to BNYM SA/NV's profile and strategy.

1.5 Scope of Application

The Pillar III disclosures have been produced for BNYM SA/NV on a consolidated basis, including its branches and (fully) consolidated subsidiary. BNYM SA/NV is a credit institution incorporated in Belgium. It is a subsidiary of The Bank of New York Mellon, a New York banking corporation with trust powers, having its principal office in New York, which is itself a subsidiary of The Bank of New York Mellon Corporation (BNY Mellon), the ultimate parent company of the BNY Mellon Group.

BNYM SA/NV is subject to dual supervision in Belgium: for market conduct matters, supervision is exercised by the Financial Services and Markets Authority (the 'FSMA') while for prudential matters, supervision is exercised by the European Central Bank (the 'ECB') together with the National Bank of Belgium (the 'NBB'), acting as National Competent Authority, as BNYM SA/NV has been identified as a significant bank within the Single Supervisory Mechanism. BNYM SA/NV also qualifies as a Belgian assimilated settlement institution and is directly supervised by the NBB in this respect. Its seven branches and consolidated subsidiary ('BNYMSKVG') are also subject to local supervision by the following national regulators:

Name	Type	Regulator
Amsterdam Branch	Branch	De Nederlandsche Bank (DNB)
Dublin Branch	Branch	Central Bank of Ireland (CBI)
Frankfurt Branch	Branch	Deutsche Bundesbank (DB) & Federal Financial Supervisory Authority / Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
London Branch	Branch	Prudential Regulatory Authority (PRA) Financial Conduct Authority (FCA)

Name	Type	Regulator
Luxembourg Branch	Branch	Commission de Surveillance du Secteur Financier (CSSF)
Paris Branch	Branch	Autorité Du Contrôle Prudentiel (ACPR), Banque De France (BD)
Milan Branch	Branch	Banca D'Italia (BI)
BNYMSKVG	Subsidiary	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

1.6 Organisational Structure

BNYM SA/NV is a Belgian credit institution and is also recognized as a Belgian assimilated settlement institution. BNYM SA/NV has its registered office in Brussels and is a wholly owned subsidiary of The Bank of New York Mellon (99.9999% of share capital - BNY International Financing Corporation holds one share in BNYM SA/NV).

BNYM SA/NV provides services on a passported basis through its headquarters in Brussels and its branches in Amsterdam, Dublin, Frankfurt, London, Luxembourg, Milan and Paris. BNYM SA/NV has also a subsidiary in Frankfurt, BNYMSKVG, and a representative office in Copenhagen. Pursuant to the EU single market directives, BNYM SA/NV's operations are passported in the following 11 territories: Iceland, Finland, Sweden, Denmark, Norway, Spain, Greece, Cyprus, Austria, Portugal and Italy. Some of those countries apply restrictions to passporting rights, in accordance with the local transpositions of the EU directives. BNYM SA/NV complies with these restrictions and adapts its operations accordingly.

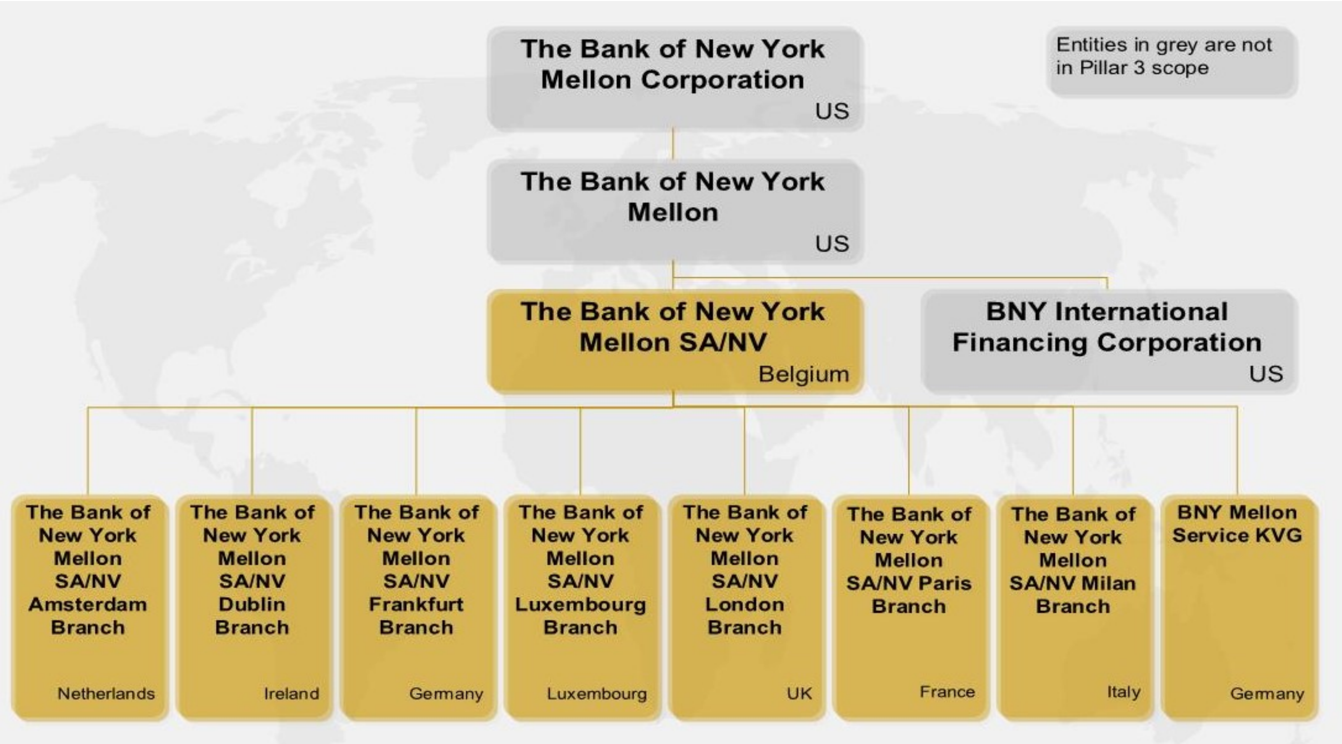
BNYM SA/NV was established in 2008 with the aim of becoming BNY Mellon's main banking subsidiary in Continental Europe. During 2009, part of the business of the Brussels Branch of BNY Mellon was integrated into BNYM SA/NV, forming the current Brussels Head Office. As part of BNY Mellon's strategy to consolidate its legal entity structure in Europe, BNYM SA/NV acquired branches in Amsterdam, London, Frankfurt and Luxembourg further to the merger with BNY Mellon GSS Acquisition Co. (Netherlands) BV on October 1, 2009. On June 1, 2011, further to the merger with The Bank of New York Mellon's acquired German subsidiary, BNY Mellon Asset Servicing GmbH, BNYM SA/NV significantly expanded the activities of its Frankfurt branch and Frankfurter Service KapitalverwaltungsGesellschaft mbh became BNYM SA/NV's fully owned subsidiary under the name of BNY Mellon Service KapitalverwaltungsGesellschaft (BNYMSKVG). On December 1, 2011, BNYM SA/NV opened a branch in Paris. On February 1, 2013, BNYM SA/NV opened a new branch in Dublin as a result of the cross-border merger with The Bank of New York Mellon (Ireland) Limited. An additional branch in Milan was created on April 1, 2017 as a result of the merger of The Bank of New York Mellon (Luxembourg) S.A. into BNYM SA/NV and the Luxembourg Branch of BNYM SA/NV significantly expanded its activities as a result of this merger.

Effective November 4, 2014, the ECB as part of Single Supervisory Mechanism (SSM) became the principal regulator for BNYM SA/NV along with the NBB, acting as National Competent Authority. BNYM SA/NV is also supervised by the FSMA which is responsible for the integrity of the financial markets and fair treatment of financial consumers in Belgium pursuant to the Act of 2 August 2002 on the supervision of the financial sector and on financial services.

On November 20, 2015, BNYM SA/NV was designated as a domestic systemically important institution (referred to in the CRD IV as an "other systemically important institution" or "O-SII") in Belgium.

The entity structure of BNYM SA/NV is set out below.

Figure 1: BNYM SA/NV corporate structure at 31 December 2017



1.7 Footprint

Within BNY Mellon, BNYM SA/NV is usually referred to as 'The European Bank' and remains strategically important for BNY Mellon as the primary contracting entity for Investment Servicing in Europe. BNYM SA/NV is a global custodian for BNY Mellon. Assets are held worldwide on behalf of other BNY Mellon entities through relationships with third-party sub-custodians or with central securities depositories.

BNYM SA/NV manages a network of approximately 100 sub-custodian relationships utilised by BNY Mellon and facilitates the expansion of BNY Mellon into other EU countries through the establishment of a network of branches or passporting of services.

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 proposed to re-align the EMEA activities of BNY Mellon 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 BNYM SA/NV flexibility for growth by freeing up capital, allowing more room for new products and services and focusing its business on EU clients.

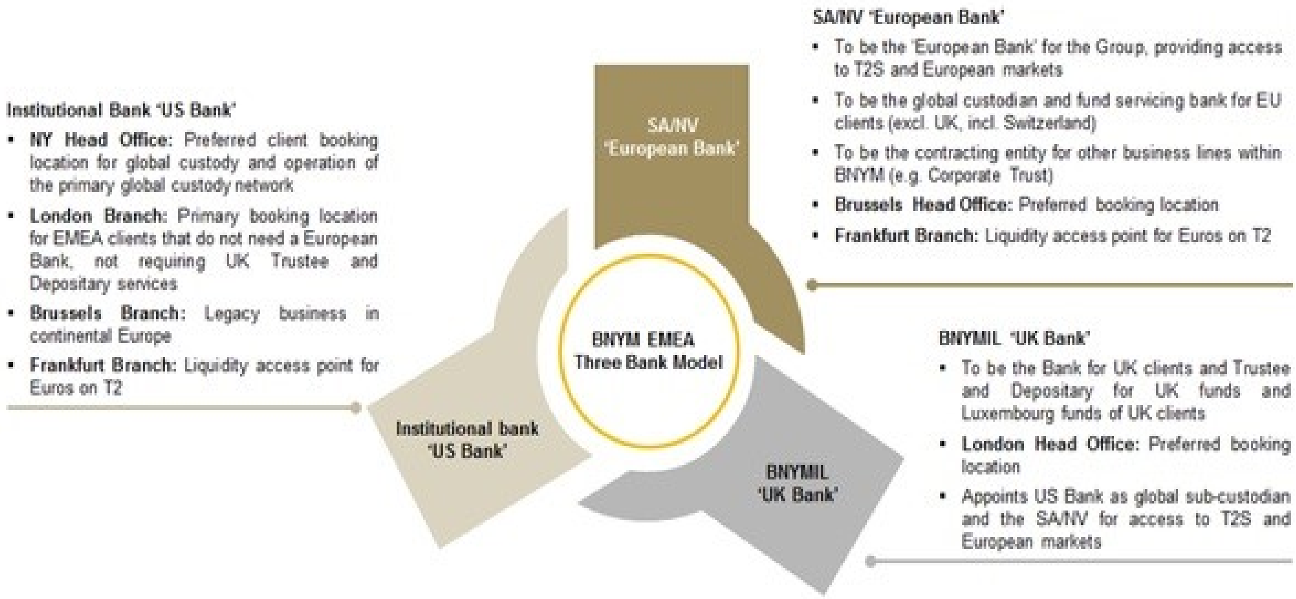
The **rationales** behind the Three Bank Model initiative include:

- 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 and improvement of client experience through more efficient service delivery;

- Delivery of 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: Three Bank Model



1.8 Core Business Lines

BNYM SA/NV has a number of core business lines including Asset Servicing, Corporate Trust, Foreign Exchange, Collateral Management and Segregation and Liquidity Services.

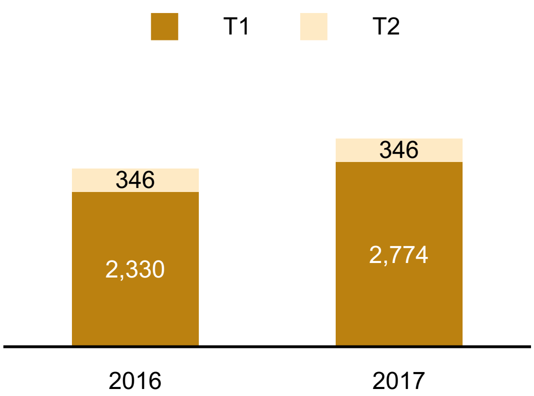
Line of business (LOB)	Description
Asset Servicing (AS)	Asset Servicing primarily comprises Global and Local Custody services but also includes Depot Banking, Institutional Accounting, Foreign Exchange (FX) services, Fund Accounting and Transfer Agency services.
Corporate Trust (CT)	BNYM SA/NV offers Corporate Trust services, acting in a broad range of agency roles including, but not limited to: trustee, registrar, issuing and paying agent, common depository, exchange agent, custodian and collateral / portfolio administration.
Foreign Exchange (FX)	BNYM SA/NV provides foreign exchange services which enable clients to achieve their investment, financing and cross-border objectives. This business provides currency hedge administration and foreign exchange sales and trading.
Collateral Management and Segregation	BNYM SA/NV acts solely as a servicing entity providing services contracted by BNYM acting as tri-party agent for transactions related to securities lending and repurchase ("repo") agreements, or acting as an administrator, providing segregation services for any type of transaction requiring segregation of collateral.
Liquidity Services	Liquidity Services is responsible for sales, client service and product management relating to the Liquidity DIRECT web portal. Liquidity Services is also responsible for relationships with the investment managers whose liquidity funds are available to clients through the Liquidity DIRECT platform and other instruction platforms. The Liquidity DIRECT online platform provides a medium for clients to view, transact and generate reporting for their daily liquidity activities. Liquidity Services provides sales and client service for contracting clients.

Depository Receipts	BNYM SA/NV Dublin Branch performs certain operational activities relating to Depository Receipts, predominantly issuance and cancellation. Depository receipts facilitate cross-border investment solutions for companies and investors. They are negotiable financial securities issued by a bank to represent foreign companies' publicly traded securities, allowing them to have their stocks traded in foreign markets.
Broker-Dealer and Advisory Services	Broker-Dealer and Advisory Services conduct global clearing services for equity and fixed income transactions.

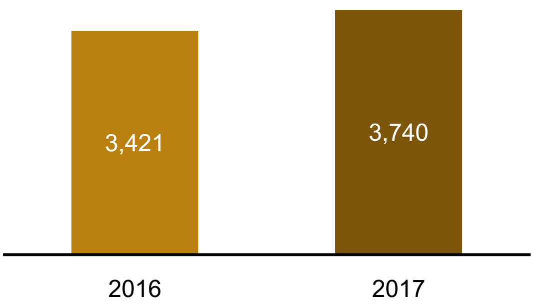
1.9 Key Metrics

The following risk metrics reflect BNYM SA/NV's risk profile:

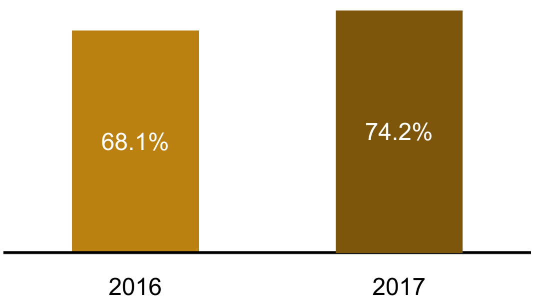
Regulatory Capital (€m)



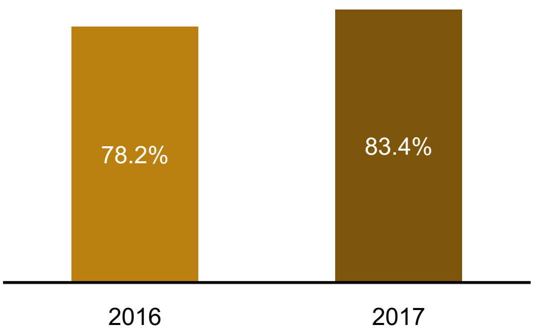
Risk Weighted Assets (€m)



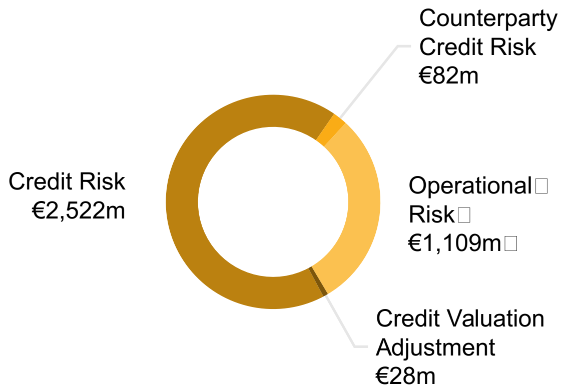
CET1 Ratio Trend



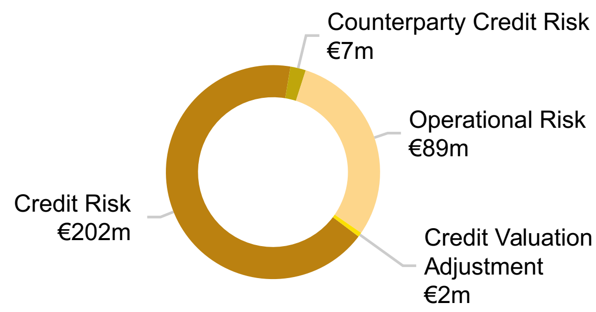
Total Capital Ratio Trend



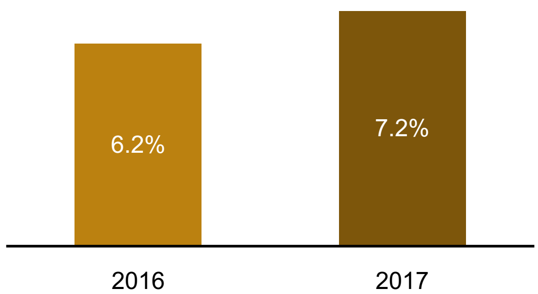
Risk Exposure by Counterparty (€3,740m) 2017



Capital Requirements by Counterparty (€299m) 2017



Leverage Ratio Trend



NSFR Trend

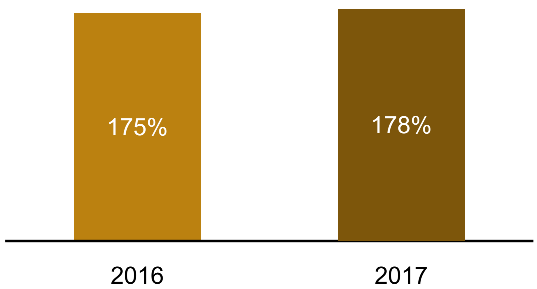


Table 1: Capital ratios

Own Funds	2017	2016
Available capital (€m)		
Common Equity Tier 1 (CET1)	2,774	2,330
Tier 1 capital	2,774	2,330
Tier 2 capital	346	346
Total capital	3,120	2,676
Risk-weighted assets (€m)		
Total risk-weighted assets (RWA)	3,740	3,421
Risk-based capital ratios as a percentage of RWA		
CET1 ratio	74.2%	68.1%

Own Funds	2017	2016
Tier 1 ratio	74.2%	68.1%
Total capital ratio	83.4%	78.2%
Additional CET1 buffers requirements as a percentage of RWA		
Capital conservation buffer requirement	1.250%	0.625%
Countercyclical buffer requirement	0.040%	0.048%
Other systemically important institution buffer	0.500%	0.250%
Basel III leverage ratio		
Total Basel III leverage ratio exposure measure (€m)	38,559	37,841
Basel III leverage ratio	7.2%	6.2%
Liquidity Coverage Ratio (LCR)		
Total HQLA (€m)	23,186	24,489
Total Net Cash Outflow (€m)	15,459	15,540
LCR	150.0%	157.6%
Net Stable Funding Ratio (NSFR)		
Total Available Stable Funding (€m)	9,457	9,568
Total Required Stable Funding (€m)	5,303	5,461
NSFR	178.0%	175.2%

Note: capital and leverage ratios include yearly P/L.

Key highlights and post balance sheet date events

The following took place in 2017 and are considered as important events that impacted BNYM SA/NV:

- Merger of BNYM SA/NV with The Bank of New York Mellon (Luxembourg) S.A. on April 1, 2017. As a result of the merger, BNYM SA/NV established a new branch in Milan and expanded the activities of its Luxembourg Branch. The merger increased third party deposit by €3bn.
- Transfer of client CAPITA from BNYM SA/NV Head office to BNYMIL UK Head office in December 2017 as part of BNYM EMEA Operating model. The transfer resulted in a decrease of third party deposits by €2.6bn.

2 Own Funds

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

Total Assets €36,670m

Common Equity Tier 1 capital €2,774m

Total Own Funds €3,120m

Total Risk Weighted Assets €3,740m

This section provides an overview of the regulatory balance sheet and composition of BNYM SA/NV's regulatory capital. 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.

Table 2: Own fund, full reconciliation

This table shows a reconciliation of BNYM SA/NV's balance sheet prepared in accordance with International Financial Reporting Standards (IFRS) and the regulatory balance sheet prepared under prudential rules. The regulatory balance sheet forms the basis for the calculation of regulatory capital requirements.

At 31 December 2017 (€m)	Consolidated balance sheet	Adjustments due transitional provisions	Regulatory adjustments	Regulatory balance sheet
Assets				
Cash and cash balances with central banks	11,786	—	—	11,786
Derivative financial instruments	106	—	70	176
Loans and advances to customers	9,338	—	2,257	11,595
Investment securities	14,430	(8)	(11)	14,411
Other assets	549	—	—	549
Property and equipment	6	—	—	6
Current tax assets	26	—	—	26
Deferred tax assets	1	—	—	1
Goodwill and other intangible assets	428	—	(428)	—
Total assets	**36,670**	**(8)**	**1,888**	**38,550**
Liabilities				
Derivative financial instruments	126	—	70	196

At 31 December 2017 (€m)	Consolidated balance sheet	Adjustments due transitional provisions	Regulatory adjustments	Regulatory balance sheet
Deposits by banks	31,732	—	2,257	33,989
Deposits by central banks	860	—	—	860
Customer accounts (non-banks)	10	—	—	10
Subordinated loan	359	—	(346)	13
Current tax liabilities	28	—	—	28
Deferred tax liabilities	15	—	(14)	1
Other liabilities	328	—	—	328
Provision for liabilities	5	—	—	5
Total liabilities	**33,463**	**—**	**1,967**	**35,430**
Shareholders' equity				
Called up share capital	1,757	—	—	1,757
Retained earnings, reserves and other comprehensive income	1,359	—	—	1,359
Deductions from capital	—	(8)	(425)	(433)
Tier 2 capital	—	—	346	346
Profit and loss account	91	—	—	91
Total equity	**3,207**	**(8)**	**(79)**	**3,120**
Total liabilities and equity	**36,670**	**(8)**	**1,888**	**38,550**

Regulatory adjustments: In accordance with articles 36 and 37 of CRR, amounts of goodwill and other intangible assets, net of their related deferred tax liabilities, are deducted from the CET1. Also, in accordance with article 62 of CRR, subordinated loans meeting conditions of article 63 are considered as Tier 2 capital. Loans and advances to customers are shown as gross exposures in the regulatory balance sheet.

BNYM SA/NV'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 CRD IV comprising common shares issued and related share premium, retained earnings and other reserves, less specified regulatory adjustments.

Tier 2 capital which is a component of regulatory capital under CRD IV, comprising qualifying subordinated loan capital.

Table 3: Composition of regulatory capital

This table shows the composition of BNYM SA/NV's regulatory capital including all regulatory adjustments.

Own Funds (€m)	31 December 17	31 December 16
Common Equity Tier 1 (CET1)		
Capital instruments	1,757	1,542
Retained earnings	1,403	1,296
Reserves and other comprehensive income	47	94
CET1 Adjustments	(432)	(602)
Total CET1 capital	**2,774**	**2,330**
Additional Tier 1 (AT1) capital		

Own Funds (€m)	31 December 17	31 December 16
Total AT1 capital	**—**	**—**
Total Tier 1 capital	**2,774**	**2,330**
Tier 2 (T2) capital		
Capital instruments and subordinated loans	346	346
Total T2 capital	**346**	**346**
Total Own Funds	**3,120**	**2,676**

Table 4: Transitional own funds

The table below shows the transitional own funds disclosure at 31 December 2017.

Equity instruments, reserves and regulatory adjustments (€m)	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	1,757	—
of which: ordinary shares	1,757	—
Retained earnings	1,403	—
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	47	—
Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase out from CET1	—	—
CET1 capital before regulatory adjustments	**3,207**	**—**
CET1 capital: regulatory adjustments		
Goodwill and intangible asset deductions	(414)	—
Additional value adjustments (prudent valuation)	(11)	—
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	(8)	(8)
Year-end non eligible earning adjustments	—	—
Total regulatory adjustments to CET1	**(432)**	**—**
CET1 capital	**2,774**	**—**
AT1 capital	**—**	**—**
Tier 1 (T1) capital	**2,774**	**—**
Tier 2 (T2) capital: Instruments and provisions		
Total regulatory adjustments to T2 capital	—	—
T2 capital	**346**	—
Total capital	**3,120**	**—**

Equity instruments, reserves and regulatory adjustments (€m)	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
Total risk weighted assets	**3,740**	**—**
CET1 (as a percentage of risk exposure amount)	74.2%	—
T1 (as a percentage of risk exposure amount)	74.2%	—
Total capital (as a percentage of risk exposure amount)	83.4%	—
Capital conservation buffer requirement	1.250%	—
Countercyclical capital buffer requirement	0.040%	—
Other Systemically Important Institution (0-SII) buffer	0.500%	—
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)	1	—

Table 5: Tier 2 instruments

This table provides a description of the main features of regulatory instruments issued and included as tier 2 capital in table 3 at 31 December, 2017.

Capital instruments main features [1]	Loan 1	Loan 2
Legal entity issuer	The Bank of New York Mellon SA/NV	The Bank of New York Mellon SA/NV
Governing law(s) of the instrument	Belgian law	Belgian law
Regulatory treatment		
Capital classification	Tier 2	Tier 2
Type	Subordinated debt	Subordinated debt
Capital amount (€)	92,500,000	253,000,000
Issue price (€)	92,500,000	253,000,000
Accounting classification	Other financial liabilities	Other financial liabilities
Original date of issuance	October 1st, 2009	July 23rd, 2010
Perpetual or dated	Perpetual	Dated
Maturity date	No maturity	July 22nd, 2040
Coupons / dividends		
Fixed or floating dividend/coupon	Fixed	Fixed

Note [1]: this table is based on Annex II of ITS Regulation (EU) No. 1423/2013, not applicable lines are omitted.

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

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

3 Capital Requirements

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

Total Risk Exposure Amount €3,740m

2016: €3,421m

Total Capital Requirement €299m

2016: €274m

BNYM SA/NV's capital plan aims to ensure that it holds an appropriate amount of capital 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 BNYM SA/NV'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, BNYM SA/NV generates a 3 year forecast which forms the base foundation for financial modelling and stress testing used as part of the ICAAP process.

The capital plan effectively incorporates a view of BNYM SA/NV'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 Committee ('ExCo') and Board approval (upon recommendation of the Risk Committee of the Board) and the performance metrics are reviewed by the Belgium Asset and Liability Committee ('Belgium ALCO').

3.1 Calculating Capital Requirements

CRD IV allows for different approaches for calculating capital requirements. BNYM SA/NV applies the standardised approach under Pillar 1 where risk weights are based on the exposure class to which the exposure is assigned and its credit quality. These risk weights are used to assess the 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 using the standardised approach (*SA) and their respective capital requirements.

	Risk exposure amount		Capital requirements	
Type of risk	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
Credit risk SA*	2,522	2,013	202	161

	Risk exposure amount		Capital requirements	
Type of risk	**31-Dec-17**	**31-Dec-16**	**31-Dec-17**	**31-Dec-16**
Counterparty credit risk SA*	82	255	7	20
Market risk SA*	—	60	—	5
of which: Foreign exchange position risk	—	60	—	5
Operational risk	1,109	1,023	89	82
of which: Standardised approach	1,109	1,023	89	82
Credit Valuation Adjustment - standardised method	28	70	2	6
Total	**3,740**	**3,421**	**299**	**274**
Total capital			**3,029**	**2,676**
Surplus capital			2,729	2,402

* S = Standardised Approach

BNYM SA/NV largely exceeds the minimum capital ratios required to maintain a well-capitalised status and to ensure compliance with regulatory requirements at all times. BNYM SA/NV sets the 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 a BNY Mellon group level as an imperative. Clients and market participants need to have confidence that all of the BNY Mellon's legal entities will remain strong, continue to deliver operational excellence and maintain an uninterrupted service. Therefore BNYM SA/NV and the BNY Mellon group as a whole are committed to maintaining a strong balance sheet and, as a strategic position, assume 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 Board has adopted for BNYM SA/NV a conservative risk appetite to maintain a strong capital position and balance sheet throughout all market cycles with strong liquidity, superior asset quality, readily access to external funding sources at competitive rates, and a strong capital structure whilst delivering operational excellence to meet stakeholders' expectations.

4.1 Risk Objectives

The identification, measurement, monitoring and management of risk are essential elements for the success of operations undertaken by BNYM SA/NV, specifically:

- The Board recognises that defining a risk appetite must consider the views of a number of different stakeholders while accounting for business strategy and risk profile
- The Board sees embedding the risk appetite into the business strategy as essential
- The Board recognises that it cannot mitigate all risks. The risk framework includes standard risk management self-assessment tools that take into account loss history and stress testing to measure and monitor whether or not risk controls in place continue to remain effective
- The Board will seek input from its own and group wide risk committees on a regular basis in its reassessment of appetite and sources of major risks

The Board adopts a prudent appetite to all elements of risk to which BNYM SA/NV is exposed.

4.2 Risk Governance

Risk oversight and management are structured to cover regional level, legal entity and lines of business ('LOB'). A formal governance hierarchy is in place to ensure that all areas of the business can effectively escalate issues through the regional and global structure.

4.2.1 Board of Directors

The Board is composed of a majority of non-executive directors, some of whom are representatives of The Bank of New York Mellon senior management. At least two of the non-executive directors are independent directors (as defined in the Belgian Companies Code). All members of the ExCo also sit on the Board in compliance with Article 24 of the Banking Act. All directors are natural persons.

The Board meets formally once a quarter or more frequently if deemed appropriate. Board meetings can be called whenever the specific needs of the business require it.

The principal responsibilities of the Board, as defined in the Terms of Reference for the Board of Directors include, but are not limited to:

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

- reviewing the Company's processes for compliance with applicable laws, regulations and the internal policies including the Code of Conduct
- overseeing the process of external disclosure and communications

The table below shows the members of the Board and its committees as of 31 December 2017.

Name	Position	Nationality	Number of external directorships held
Non-Executive Directors			
Hani Kablawi	Remuneration Committee (Member)	US Citizen	—
Peter Johnston	Audit Committee (Member)	US Citizen	—
Olivier Lefebvre	Board of Directors (Independent Chair) Audit Committee (Independent Member) Nomination Committee (Independent Chair) Remuneration Committee (Independent Member)	Belgian	2
Marie-Hélène Cretu	Audit Committee (Independent Chair) Remuneration Committee (Independent Member) Risk Committee (Independent Member)	French	2
Executive Directors			
Laura Ahto	Chief Executive Officer Executive Committee (President)	British	—
Hedi Ben Mahmoud	Chief Risk Officer Executive Committee (Member)	Belgian	—
Annik Bosschaerts	Chief Operations Officer Executive Committee (Member)	Belgian	—
Eric Pulinx	Chief Financial Officer & Deputy Chief Executive Officer Executive Committee (Member)	Belgian	1
Leonique van Houwelingen	Executive Committee (Member)	Dutch	—

Note: Michael Cole-Fontayn resigned as Board member, Chair of the Nomination Committee and Member of the Remuneration Committee on 15 December 2017. Jürgen Marziniak resigned as Independent Board member, Independent Chair of the Remuneration Committee, Independent Member of the Risk Committee and Independent Member of the Nomination Committee on 31 December 2017. Carol Sergeant was formally appointed as Independent director, Independent Chair of the Risk Committee and Independent Member of the Audit Committee on 29 January 2018. James Wiener was formally appointed as non-executive director, Member of the Risk Committee and Member of the Nomination Committee on 29 January 2018.

BNYM SA/NV is committed to diversity and inclusion. This commitment is not only important to BNYM SA/ NV's culture and to each director as individuals, it is also critical to BNYM SA/NV's ability to serve its clients and grow its business. BNYM SA/NV recognises the benefits of having individuals with diverse backgrounds, experience and viewpoints on the Board for the different perspective 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 Terms and Reference of the Board state that at least one third of each gender shall be represented on the Board and on the ExCo and that such distribution should be reached by 2020. As long as this target is not reached, female candidates with proven qualifications shall be preferred over male candidates for any new appointment on the Board.

The Nomination Committee (the "NoCo") 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 Board member's appointment. In identifying suitable candidates for a particular appointment, the NoCo considers candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender.

4.2.2 Legal Entity Risk Management

The ExCo has been established by the Board in accordance with Article 24 of the Banking Act and Article 524bis of the Belgian Companies Code and has been entrusted with the general management of BNYM SA/NV with the exception of (i) the determination of the strategy and general policy of BNYM SA/NV and (ii) the powers reserved to the Board by law or the articles of association. The ExCo meets formally at least once a month, and reports to the Board.

The ExCo is responsible for running the general management of BNYM SA/NV within the strategy and the general policy as defined by the Board and for ensuring that the culture across BNYM SA/NV facilitates the performance of business activities with integrity, efficiency and effectiveness.

The ExCo reviews 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 BNYM SA/NV, its branches or subsidiary.

As described in detail in the ExCo Terms of Reference, the responsibilities of the ExCo in carrying out the general management of the Company mainly relate to corporate responsibilities, control environment, regulatory, stress testing and ICAAP (Internal Capital Adequacy Assessment Process).

The ExCo reports its activities, advises, and makes recommendations to the Board regularly. At least annually, the ExCo assesses the efficiency of the Company's internal organisation and internal controls together with the measures taken to remediate to any identified deficiencies, and reports the same to the Board, the NBB and the external auditor.

The ExCo has established the following committees to assist it in the performance of its duties:

- The Risk Management Committee (RMC)
- The Belgium Asset and Liability Committee (Belgium ALCO)
- The Capital and Stress Test Committee (CSTC)
- The Credit Risk Oversight Committee (CROC)

The ExCo has also delegated authority to Business Acceptance Committees and is also assisted by two councils.

Risk Management Committee (RMC)

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

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

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

Capital and Stress Testing Committee (CSTC)

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

The CSTC is an empowered decision making body under authority delegated by the ExCo and subject to corporate policy, legislation and external regulation.

Belgium Asset and Liability Committee (Belgium ALCO)

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

The Belgium ALCO holds meetings on regular (primarily monthly) basis but ad hoc meetings can also be called at the discretion of the Chair.

Credit Risk Oversight Committee (CROC)

The key purpose of the CROC is to oversee all forms of credit risk, to oversee controls of credit risk associated with BNYM SA/NV banking business and to ensure compliance with BNYM SA/NV credit policies. The activities of the CROC are reported to the ExCo as well as to the RMC where relevant.

Business Acceptance Committees (BAC)

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

Councils assisting the ExCo

In addition to the above committees, the ExCo has mandated two councils to assist them:

- The Technology and Information Risk Council (TIRC) derives its authority and mandate from the ExCo through the RMC. The purpose of the TIRC is to provide a detailed review of all key Client Technology Solutions (CTS) services and emerging risk for reporting to the RMC
- The Belgium Management Council (BEMCO), with the purpose to provide leadership for BNY Mellon employees in Belgium, regardless of legal entity, functional, or business affiliation. The BEMCO is responsible for overseeing, informing, supporting and involving other local bodies, as well as ensuring employee engagement within the Brussels location and the company in Belgium. It shall also decide or escalate matters discussed with the employee relations bodies

4.2.3 Regional Risk Governance

A regional level risk governance structure is in place to oversee all business and legal entities' risk. Various BNYM SA/NV risk committees and risk management processes feed into the structure below.

Oversight and escalation is provided through the following key committees:

EMEA Executive Committee (EEC) is the senior regional management committee. The EEC's main role is to drive actions relating to the region's revenue generation, strategy, governance and control objectives. It is also a platform for regional senior managers to agree common positions on issues relevant to all businesses operating within EMEA.

The EEC is a challenge and advisory committee, though it will not typically have decision-making authority over individual businesses and legal entities. The chair can escalate concerns raised at the EEC to the Corporate Executive Committee of which (s)he is a member.

However it should be noted that the primary responsibility for the oversight of individual businesses / entities rests with the senior management of those businesses / entities and those managers performing "governing" functions under the PRA's Approved Person's regime.

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

- EMEA Anti-Money Laundering Oversight Committee
- EMEA Asset and Liability Committee
- EMEA Controls Committee
- EMEA Investment Management Risk & Compliance Committee

The ESRMC is an empowered decision-making body under authority delegated by the EEC, but subject to constraints of both corporate policy and legislation and regulation as appropriate.

EMEA Investment Services and Markets Committee is an oversight and advisory body whose purpose is to:

- Align the different parts of the EMEA Investment Services and Markets (EMEA ISM) businesses to form a collective view on matters affecting EMEA ISM legal entities and their respective businesses
- Opine on the effectiveness of the EMEA ISM constituent businesses and business partner groups within the global, regional and legal entity context
- Guide and monitor the development of the EMEA ISM businesses
- Safeguard the operational resilience of the EMEA ISM businesses
- Act as the guardian of the EMEA ISM strategy

4.2.4 Business Unit Risk Management

The oversight of risk management within business units at a regional level is governed via two risk management committees, namely:

EMEA Asset Servicing Business Acceptance Committee which is responsible for channeling new/ renewal business into lines of business and subsequently legal entities, including BNYM SA/NV, approving all new clients prior to commencing a relationship with them and approving new business arrangements with existing clients. Risk is assessed and reviewed as part of the approval process.

EMEA Asset Servicing Business Risk Committee which 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.

4.3 Risk Management Framework

As a global and systemically important financial institution, BNYM SA/NV holds itself to an industry leading standard of risk management. Effective management of risk is at the core of everything BNYM SA/NV does.

From the perspective of BNYM SA/NV, as with other regulated banking entities, a strong risk governance and a robust risk culture are achieved through close and continuous co-operation between business lines, risk and compliance teams and internal audit. Taken together, these enable BNYM SA/NV to effectively identify, assess, manage and report the risks that are inherent to operating its business.

BNYM SA/NV Risk Management Framework is organized around the three lines of defense and BNYM SA/NV has, in accordance with the Banking Act requirements, put in place the following independent control functions: internal audit, compliance and risk management.

The ExCo is responsible for the implementation of these independent control functions. Annually, it reports to the NBB, the statutory auditor and the Board on the compliance with this requirement and on the measures taken in this respect. These functions are considered as independent as they operate independently from the other business functions.

The Heads of the independent control functions must be fit and proper for carrying out such a role and approved by the NBB.

BNYM SA/NV has adopted a ‘three lines of defense’ model as part of the risk management framework. The First Line of Defense ('1LOD') consists of managers and employees at the business or, in some cases, business partner level. They own the risk associated with the business activities, and they manage the risks and the related control processes and procedures on an operational basis. The Risk Management and Compliance functions are the Second Line of Defense ('2LOD'); and own the enterprise-wide risk management framework and provide independent oversight of the 1LOD. This also includes Corporate Security, Business Continuity, Financial Management and Analysis within finance. The Third Line of Defense ('3LOD') is Internal Audit, which independently provides the Board and senior management with the assurance that the governance structures, risk management and internal controls in place are effective.

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 BNYM SA/NV's internal controls, risk identification, monitoring, reporting and escalation. Risks are managed within specialist risk teams (e.g., credit, liquidity) or via line of business risk teams (operational, market).

4.4 Risk Register

A Risk Register is a management tool that provides a high level view of an entity's risk landscape. It is instrumental in forming the risk strategy of the entity and defining risk appetite in the context of the broader organization. Applied to BNYM SA/NV, the Risk Register enables management to focus on the key risks to which BNYM SA/NV is exposed. The BNYM SA/NV Risk Register, which is governed by the Policy "Legal Entity Risk Register", should be read in conjunction with, and be complementary to, BNYM SA/NV ICAAP and ILAAP, the business-level risk and control self-assessments ('RCSA's') and other Risk MI including the specific BNYM SA/NV Risk Dashboard.

The BNYM SA/NV's Risk Register is prepared and owned by the appointed Legal Entity Risk Officer ('LERO'). Senior Risk Officers of each Line of Business ('LOB SROs'), risk function heads (e.g. credit risk) and key representatives from the Lines of Business/Legal Entities will be consulted as part of the assessment process. The Risk Register, which is approved by the ExCo, is a living document and will be updated regularly, and at least annually.

4.5 Risk Appetite

BNYM SA/NV is committed to ensure that, in executing on its strategic and operational plans, it operates within its own risk appetite at all times. In order to achieve this, BNYM SA/NV is also committed to operating within its defined risk appetite statement at all times.

Furthermore, BNYM SA/NV is committed to ensure that forward looking controls over the individual components of Risk Appetite are embedded into the terms of reference of the governance committees that both directly and indirectly have the ability to influence the risk profile of BNYM SA/NV.

4.6 Risk Assessment Methodology and Reporting Systems

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

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the RMC, the ExCo and the Board.

Internal Capital Adequacy Assessment Process (ICAAP)

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

The Internal Capital Adequacy Assessment Process and related Economic Capital ('ECAP') under Pillar II relies on series of internal models, calculating the capital requirement to be set aside for each risk deemed material of BNYM SA/NV and for which capital is considered as an appropriate mitigant. The ICAAP also relies on stress testing performed on the capital planning. The ICAAP report is submitted on a yearly basis and follows the Belgian and European regulations in that respect.

Pillar 2 capital requirement is based on an internal risk assessment of the components of the balance sheet and of the business activities; it uses BNYM SA/NV's methodologies which follow an approval process including independent validation by the BNY Mellon's model validation team. These methodologies are presented to and approved by the Board. The Economic Capital framework is based on appropriate, forward-looking and plausible estimates of capital needs over a one-year horizon, and at a high confidence level, 99.9%, that reflects the overall capital management objectives of BNYM SA/NV.

The purposes of the ICAAP are to:

- inform and seek approval from BNYM SA/NV's senior management and Board of the ongoing assessment of the Company's risks and the approaches used to mitigate those risks, such that they remain within the risk appetite established by the Board
- determine the amount of capital that is likely to be necessary to support those risks at the point when the assessment is made and also over BNYM SA/NV's three-year planning horizon, both under baseline and stressed conditions
- document the capital adequacy assessment process both for internal stakeholders and for 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

In addition to ensuring that there is sufficient capital to cover economic risk and to meet regulatory capital requirements under stressed conditions, the Company's objective is also to maintain sufficient capital to be a preferred service provider and counterparty.

Credit Risk, Credit Value Adjustment, Market Risk, Operational Risk, Interest Rate Risk, Credit Spread Risk, Business Risk, Restitution Risk, Pension Risk and Model Risk are all covered by Economic Capital. Different types of quantification procedures are used as part of the ECAP framework, including scenario analysis and Pillar 1-style models as well as statistical models that deliver a full probability distribution of economic losses. This is in particular the case for Credit Risk as well as Operational Risk, where BNYM SA/NV uses a hybrid model combining losses and forward looking scenarios information. BNYM SA/NV applies stress tests in order to assess capital adequacy in a forward looking manner.

BNYM SA/NV has adopted an Available Financial Resources (AFR) definition in order to satisfy the three following principles:

- Permanence of the resources
- Loss absorption capacity of resources
- Availability of resources

New and modified businesses / products assessment process

New or modified products or business need to be reviewed and approved by the corresponding Business Acceptance Committee (Line of Business). In addition to the BAC acceptance and in order to ensure full compliance towards Legal Entity specific concerns, the RMC must approve the business or product.

Significant new client process

Significant new clients are reviewed and approved by the corresponding Business Acceptance Committee (Line of Business).

The BAC uses a checklist in order to assess the potential impact the new client will have on the Pillar 2 capital requirement. If the impact is deemed potentially material, the BNYM SA/NV BAC delegate will be responsible to contact BNYM SA/NV Risk Management in order to obtain a Pillar 2 assessment.

Risk and Control Self-Assessment

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

Operational risk events

All operational losses and fortuitous gains exceeding US$10k are captured in the Risk Management platform with completeness being verified by reconciliation to the General Ledger. Risk events are categorized by causal category. Operational Loss Events reporting form part of the standard risk management report to the RMC.

Credit risk monitoring process

All counterparties leading to credit risk exposures are assessed and allocated a borrower rating in accordance with the BNY Mellon's credit rating system. Monitoring & 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 the light of individual circumstances. Post event monitoring is also conducted by both Client Service areas and the Credit function as well as the Large Exposure function. Issues arising from these are reported to the RMC and the CROC.

Large exposure process

Compliance with the large exposure (including Shadow Banking) regulatory requirements is controlled daily by the Large Exposure function in BNYM SA/NV. Mitigants are applied as needed.

Market risk monitoring process

The FX and FX derivative positions are monitored against a limit discussed at the Belgium ALCO.

Interest Rate risk monitoring process

The interest rate sensitivities (DV01) are monitored against the risk appetite limit, as well as the compliance with the investment guidelines.

Liquidity risk management process

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

Top risk process

The RMC maintains the list of top risks for BNYM SA/NV. The RMC also receives the list of top risks from EMEA and Group level. The RMC holds monthly discussions around the top risks for BNYM SA/NV that are reviewed on a quarterly basis, and discuss the progress to mitigate them.

Risk dashboard

The BNYM SA/NV Risk dashboard aims at providing a high-level view on the different risk appetite metrics and their evolution over a given period and a high-level view over a given period of time on the evolution and status at consolidated level of the main risk categories. It is produced on a monthly basis.

Key Risk Indicators

Key Risk Indicators (KRIs) are used by business lines to evaluate control effectiveness and residual risk within a business process. Material risks are monitored by appropriate KRIs. The business lines utilise the corporate-wide KRI process to monitor the extent to which the probability of the high inherent risks materialising is changing and to ensure that appropriate actions are being taken. KRI reporting and monitoring is performed monthly at a minimum using a Red/Amber/Green rating.

Stress testing

Stress testing is undertaken by BNYM SA/NV to monitor and quantify risk and capital and ascertain that 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 BNYM SA/NV's risk profile. BNYM SA/NV's 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 the CSTC, ExCo and Board.

4.7 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 BNYM SA/NV 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 the 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 BNYM SA/NV 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.

4.8 Recovery and Resolution Planning (RRP)

In 2017, the recovery plan for BNYM SA/NV was prepared for submission to the Joint Supervisory Team (composed of representatives of the ECB and the NBB) in accordance with the Banking Recovery and Resolution Directive 2014/59/EU as transposed in the Belgian Banking Law. The recovery plan is designed to ensure that BNYM SA/NV has credible and executable options to meet the challenges that may arise from potential future financial and/or operational crises.

5 Credit Risk

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

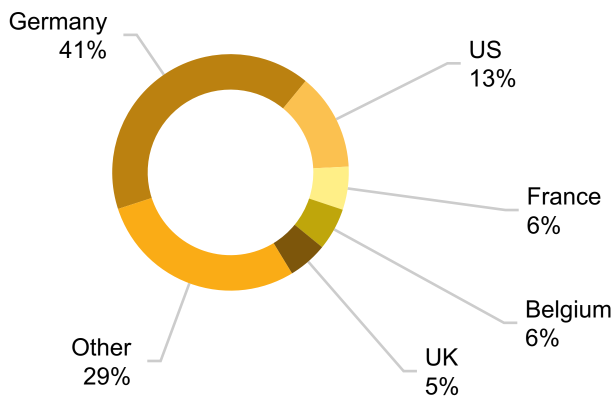
Total Net Credit Exposure Amount €31,651m

2016: €29,945m

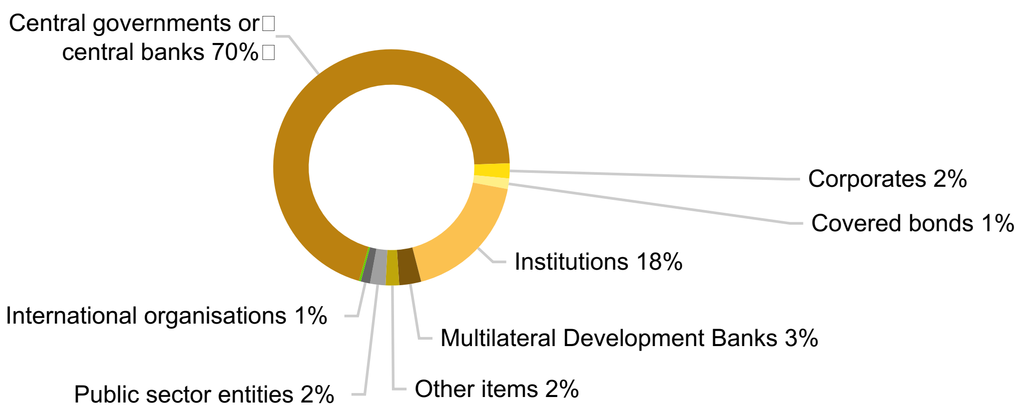
Total On and Off-Balance Sheet Exposures €38,411m

2016: €37,431m

Standardised Credit Exposure by Country



Standardised Credit Exposure by Class



5.1 Definition and Identification

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

BNYM SA/NV has a liability driven balance sheet. The credit exposures arise primarily through the placement of deposits as:

- Investment in securities (Government bonds, Corporate bonds and Covered bonds): BNYM SA/NV has a large securities portfolio. The portfolio increased during 2014 in the context of the negative interest rate environment, where BNYM SA/NV took actions in order to reduce the cost of placements in Central Banks
- Banks placement: BNYM SA/NV utilises a number of banks around the world to maintain accounts to enable it to transfer monies cross-border. These accounts are maintained at the minimum possible level and within large exposures limits commensurate with smooth operation of client and own fund's needs. The banks used are all major well rated banks in the relevant country
- Placement to Central Bank and in Money Market: the majority of credit risk assumed by BNYM SA/NV is in placing funds with banks for fixed terms or overnight. This may be by way of cash placement or by purchase of certificates of deposits issued by these banks
- Intercompany placement (although mitigated by a Master Netting Agreement)
- Derivatives in the banking book: FX swaps used to manage liquidity and FX swaps coming from the FX client activity

BNYM SA/NV is also exposed to credit risk through the risk of payments against uncollected funds which may cause overdrafts.

5.2 Credit Risk Management Framework

The Credit Risk Management Framework ('CRMF') defines roles and responsibilities using the three lines of defense. The CRMF within BNYM SA/NV relies on awareness, well defined policies, procedures and reporting, a clear governance structure and suitable tools for reporting and monitoring; these are used to effectively identify, manage, mitigate, monitor and report the risks in an organized way to the appropriate governance body.

Credit risk is 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 Credit Risk Management

Credit risk is managed and monitored by several teams globally, including officers in Brussels and is reported to the CROC, a sub-committee of the ExCo.

Monitoring and control is conducted via a number of systems to ensure that approved exposure levels are not exceeded, or are pre-approved by an appropriate Credit Officer in the light of individual circumstances.

Post event monitoring is conducted by both client service areas and the credit risk function.

Each counterparty is associated with an internal rating indicating its credit quality. In that respect, Group standards are applied uniformly within the Group.

The measurement of impairment loss allowances are based on an IFRS 9 expected credit loss ('ECL') accounting model. The definition of default is a central concept for ECL. A loan is considered non-performing with regard to a particular obligor when the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries, in full, without recourse by BNYM to actions such as realising collateral, or the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

Nostro accounts are maintained at the minimum possible level and within large exposures limits commensurate with smooth operation of client and own funds' needs. The banks used are all major well rated banks in the relevant country.

Regarding intraday overdrafts, limits are set for each client as a percentage of a client's assets under custody (subject to certain maximum levels, as per policy); all cash payments are checked against this limit. Any excesses are referred to a credit officer for approval. Occasionally business requirements are such that a manual fixed limit is required. In these situations, specific credit approval is provided by the credit risk manager. Again all cash payments are checked against this limit, prior to payment. These arrangements allow clients to access proceeds of sales, or other expected funds, even though in many markets the proceeds are not formally received until late in the day.

Formal overdraft facilities have been agreed for selected clients where business and credit risk evaluations are satisfactory. Leverage is required to be moderate. The portfolio composition is required to be adequately diversified and of sufficient quality to merit credit approval by a dedicated credit risk specialist. Overdrafts are restricted to 35% of asset value.

Risk appetite metrics have been defined for credit risk and these are reported to the RMC. The Belgium ALCO monitors the balance sheet of BNYM SA/NV for the purposes of liquidity 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 transactions' systems: the Global Securities Processing ('GSP') system for securities settlement activity and electronic payment handling ('EPH'), the bank's money transfer processing hub. Real-time balance information is input via the International Money Management System ('IMMS'), which is BNY Mellon's proprietary Demand Deposit Account platform.

Post-event monitoring is conducted by the client service area, with secondary oversight form the Credit Risk function.

5.5 Analysis of Credit Risk

Credit exposure is computed under the standardised approach for Pillar 1. This method for calculating credit risk capital requirement uses supervisory risk weights in accordance with credit quality assessments supplied by external credit assessment agencies.

The following credit risk exposure tables summarise the credit exposure for BNYM SA/NV 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

- **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 country 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

This table shows the credit risk exposures for BNYM SA/NV post CRM techniques - standardised approach by exposure class as 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	22,155	22,573
Corporates	652	648
Covered bonds	456	473
Institutions	5,700	6,489
Multilateral Development Banks	948	860
Other items	586	658
Public sector entities	671	177
International organisations	399	304
Regional governments or local authorities	83	21
Total	**31,651**	**32,204**

Table 8: Standardised credit exposure by country

This table shows the BNYM SA/NV post CRM exposure by class and by country of the counterparty.

At 31 December 2017 (€m)	Germany	US	France	Belgium	UK	Other	Total
Central governments or central banks	12,059	3,744	1,633	886	1,365	2,469	22,155
Corporates	10	—	—	2	80	560	652
Covered bonds	—	—	—	—	58	398	456
Institutions	196	103	181	466	188	4,567	5,700
Multilateral Development Banks	—	272	—	—	—	677	948
Other items	7	81	—	476	18	4	586
Public sector entities	606	—	53	—	—	12	671
International organisations	—	—	—	—	—	399	399
Regional governments or local authorities	83	—	—	—	—	—	83
Total	**12,961**	**4,199**	**1,866**	**1,830**	**1,709**	**9,085**	**31,651**

At 31 December 2016 (€m)	Germany	UK	US	France	The Netherlands	Other	Total
Central governments or central banks	11,692	1,583	3,599	2,049	948	2,547	22,418
Corporates	16	55	—	—	39	107	217
Covered bonds	—	241	—	—	154	297	692
Institutions	84	404	1	744	319	3,952	5,504
Multilateral Development Banks	—	—	250	—	—	462	712
Other items	84	27	29	1	14	201	356
Public sector entities	—	—	—	—	—	14	14
International organisations	—	—	—	—	—	32	32
Total	**11,876**	**2,310**	**3,879**	**2,794**	**1,474**	**7,612**	**29,945**

Table 9: Standardised post mitigated credit exposures by counterparty type

This table shows the exposure post CRM classified by class and by counterparty type at 31 December 2017.

Exposure class (€m)	General governments	Credit institutions	Other financial corporations	Various balance sheet items	Total
Central governments or central banks	22,155	—	—	—	22,155
Corporates	—	—	652	—	652
Covered bonds	—	456	—	—	456
Institutions	—	5,700	—	—	5,700
Multilateral Development Banks	—	948	—	—	948
Other items	—	—	—	586	586
Public sector entities	671	—	—	—	671
International organisations	399	—	—	—	399
Regional governments or local authorities	83	—	—	—	83
Total	**23,308**	**7,105**	**652**	**586**	**31,651**

5.6 Analysis of Past Due and Impaired Exposures

An aspect of credit risk management relates to problem debt management, which entails early problem identification through 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 BNYM SA/NV does not expect to collect all the contractual cash flows when they are due
- **Impairment provision** is where there is objective evidence that events have detrimentally affected the expected cash flows of an asset or a portfolio of assets. The impairment loss is the difference

between the carrying value of the asset and the present value of its estimated future cash flows and recorded as a charge to the profit and loss account and against the carrying amount of the impaired asset. An impairment provision may be either specific or generally assessed. As at 31 December 2017, BNYM SA/NV had no material financial assets that could have been subject to a specific or general provision. There were no material assets past due greater than 90 days. Please see the table 14 below for the details of past due exposures. BNYM SA/NV did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year to 31 December 2017

Table 10: Standardised credit exposure pre CRM by residual maturity

This table provides a comprehensive picture of the credit quality of on- and off-balance sheet exposures post CRM using the IFRS methodology.

At 31 December 2017 (€m)	On demand	<= 1 year	>1 year <=5	> 5 years	No stated maturity	Total
Central governments or central banks	60	3,764	5,375	1,230	11,726	22,155
Corporates	441	90	—	—	121	652
Covered bonds	—	47	403	6	—	456
Institutions	1,863	2,389	1,193	222	34	5,700
Multilateral Development Banks	—	144	676	128	—	948
Other items	570	—	—	16	—	586
Public sector entities	—	117	456	97	—	671
International organisations	—	—	157	242	—	399
Regional governments or local authorities	—	—	83	—	—	83
Total	**2,934**	**6,550**	**8,345**	**1,940**	**11,881**	**31,651**

Table 11: Credit quality of exposures by counterparty type

This table provides a comprehensive picture of the credit quality of on- and off-balance sheet exposures pre CRM.

Counterparty type at 31 December 2017 (€m)	Gross exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
General governments	—	23,308	—	—	—	—	23,308
Credit institutions	—	11,634	—	—	—	—	11,634
Other financial corporations	—	2,883	—	—	—	—	2,883
Various balance sheet items	—	586	—	—	—	—	586
Total	**—**	**38,411**	**—**	**—**	**—**	**—**	**38,411**

Counterparty type at 31 December 2016 (€m)	Gross exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
General governments	—	22,113	—	—	—	—	22,113
Credit institutions	—	13,009	—	—	—	—	13,009
Other financial corporations	—	1,953	—	—	—	—	1,953
Various balance sheet items	—	356	—	—	—	—	356
Total	**—**	**37,431**	**—**	**—**	**—**	**—**	**37,431**

As at 31 December 2017, there are no past due exposures on investment securities, cash or cash Balances with Central Banks. BNYM SA/NV has not recorded any impairment provision for financial assets in 2017 (2016: € nil).

Table 12: Credit quality of exposures by industry

This table shows the credit quality of BNYM SA/NV's on-balance-sheet and off-balance sheet exposures pre CRM 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			
Manufacturing	—	1	—	—	—	—	1
Public administration and defence, compulsory social security	—	10,806	—	—	—	—	10,806
Financial and insurance activities	—	27,547	—	—	—	—	27,547
Other services	—	57	—	—	—	—	57
Total	**—**	**38,411**	**—**	**—**	**—**	**—**	**38,411**
Of which: Loans	—	38,399	—	—	—	—	38,399
Of which: Off-balance sheet exposures	—	12	—	—	—	—	12

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			
Manufacturing	—	1	—	—	—	—	1
Public administration and defence, compulsory social security	—	11,238	—	—	—	—	11,238

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			
Financial and insurance activities	—	26,172	—	—	—	—	26,172
Other services	—	20	—	—	—	—	20
Total	**—**	**37,431**	**—**	**—**	**—**	**—**	**37,431**
Of which: Loans	—	37,410	—	—	—	—	37,410
Of which: Off-balance sheet exposures	—	21	—	—	—	—	21

Table 13: Credit quality of exposures by country

This table shows an analysis of past due, impaired exposures and allowances pre CRM by geographic area 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			
Germany	—	13,185	—	—	—	—	13,185
US	—	8,093	—	—	—	—	8,093
UK	—	3,228	—	—	—	—	3,228
The Netherlands	—	2,507	—	—	—	—	2,507
France	—	1,866	—	—	—	—	1,866
Other	—	9,532	—	—	—	—	9,532
Total	**—**	**38,411**	**—**	**—**	**—**	**—**	**38,411**

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			
Germany	—	11,890	—	—	—	—	11,890
UK	—	6,412	—	—	—	—	6,412
US	—	5,004	—	—	—	—	5,004
France	—	2,793	—	—	—	—	2,793
The Netherlands	—	2,383	—	—	—	—	2,383
Other	—	8,949	—	—	—	—	8,949
Total	**—**	**37,431**	**—**	**—**	**—**	**—**	**37,431**

Table 14: Aging of past-due exposures

This table shows the aging analysis of accounting on-balance sheet past-due exposures regardless of their impairment status using the IFRS methodology at 31 December 2017.

Gross carrying values (€000s)	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1year	> 1year
Loans	—	—	—	—	—	—
Total standardised approach	**—**	**—**	**—**	**—**	**—**	**—**

Non-performing and forborne exposures: BNYM SA/NV did not incur any material non-performing or forborne exposures during the year to 31 December 2017.

Changes in the stock of general and specific credit risk adjustments: BNYM SA/NV did not incur any impaired exposures during the year to 31 December 2017 and, therefore, no general or specific credit risk adjustments were noted.

Changes in the stock of defaulted and impaired loans and debt securities: BNYM SA/NV did not incur any impaired loans or debt securities during the year to 31 December 2017.

6 Credit Risk Mitigation

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

Exposures unsecured: carrying amount	€38,411m
Total Exposures Secured	€6,917m

BNYM SA/NV manages credit risk through a variety of credit risk mitigation strategies including collateral and master agreements and netting arrangements.

6.1 Netting

BNYM SA/NV does not offset any financial assets and financial liabilities except for intragroup exposures where a master netting agreement (MNA) exists. In addition, netting is applied on financial assets and financial liabilities that are subject to legal agreements similar to enforceable master netting arrangements, which cover similar financial instruments.

The similar agreements include global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

During 2017, BNYM SA/NV's sale and repurchase, and reverse sale and repurchase transactions, and securities borrowing and lending were covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements. As of 31 December 2017, no such transactions existed within BNYM SA/NV.

6.2 Collateral Valuation and Management

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

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

6.3 Collateral Types

The most important type of collateral is the coverage of nostro balances with one group of connected counterparties by a pool of collateral consisting of EU sovereign debt of AA- credit quality or better.

6.4 Guarantors and Credit Derivative Counterparty

See section 6.6 on credit concentration risk.

6.5 Wrong-way Risk

BNYM SA/NV 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.

6.6 Credit Concentration Risk

Credit concentration risk results from concentration of exposures to a single counterparty, borrower or group of connected counterparties or borrowers. This includes on- and off-balance sheet exposures. In addition, industry, country and collateral concentration bear additional credit risk as a systemic credit issue in a sector could create losses for the whole sector.

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

Under European and Belgian bank regulations, all large external exposures at connected group of counterparties level have to stay below a 25% threshold of the bank's own funds. Shadow banking exposure follows the same rule.

The largest exposure is to The Bank of New York Mellon and is spread across multiple branches, subsidiaries and locations which also provide some mitigation in case of default or rating downgrade of a related party. The remaining placements (including central bank placements) are diversified across a number of banks and geographic locations. In March 2014, a Master Netting Agreement (MNA) was signed between BNYM SA/NV and BNY Mellon. This agreement has a significant positive impact on the credit risk capital requirement and thereby on BNYM SA/NV solvency ratio. An additional MNA was signed with BNYM International Limited in July 2015. These MNA are still in place as of 31 December 2017.

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

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

There was no regulatory breach in 2017, neither towards external counterparties nor towards intragroup exposures.

Table 15: Credit risk mitigation techniques - overview

This table shows the total exposure that is covered by financial and other eligible collateral by each exposure class.

At 31 December 2017 (€m)	Exposures		Exposures secured by		
	unsecured carrying amount	total secured	collateral	financial guarantees	credit derivatives
Total cash and cash balances with central banks	11,786	—	—	—	—
Total loans and advances to customers	11,595	6,917	6,751	167	—
Total investment securities	14,431		—		—
Total Off-balance sheet exposures	12	—	—	—	—
Total other assets	586	—	—	—	—
Total exposures	**38,411**	**6,917**	**6,751**	**167**	**—**
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.

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 (sovereign).

7 External Credit Rating Assessment Institutions (ECAIs)

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

Risk Weighted Asset Density 8%

Total Credit Risk Exposure Post CCF and CRM €31,651m

The standardised approach uses credit ratings supplied by External Credit Assessment Institutions (ECAIs) to determine the risk weightings to apply on exposures. BNYM SA/NV uses S&P Global Rating, Moody's and Fitch Ratings as its chosen ECAIs. There has been no change to these ECAIs during the year.

Table 16: Mapping of ECAIs credit assessments to credit quality steps

BNYM SA/NV 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 BNYM SA/NV'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

In accordance with applicable regulations, 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 quality steps and risk weights

Credit quality steps and risk weights	CQS	CQS	CQS	CQS	CQS	CQS
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%
Institutions maturity > 3 months	20%	50%	50%	100%	100%	150%

Credit quality steps and risk weights	CQS	CQS	CQS	CQS	CQS	CQS
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 18: Credit risk exposure and Credit Risk Mitigation (CRM) effects

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

	Exposures before CCF and CRM		Exposures post CCF and CRM			
Exposure class at 31 December 2017 (€m)	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Central governments and central banks	22,155	—	22,155	—	—	—%
Corporates	2,871	12	649	3	642	99%
Covered bonds	456	—	456	—	46	10%
Institutions	10,229	—	5,700	—	1,244	22%
Multilateral Development Banks	948	—	948	—	—	—%
Other items	586	—	586	—	588	100%
Public sector entities	671	—	671	—	2	—%
International organisations	399	—	399	—	—	—%
Regional governments or local authorities	83	—	83	—	—	—%
Total	**38,399**	**12**	**31,648**	**3**	**2,522**	**8%**

Table 19: Credit risk exposure by asset class and risk weight post CCF and CRM

This table shows the breakdown of on- and off-balance sheet exposures for BNYM SA/NV after the application of both conversion factors and risk mitigation techniques.

	Risk Weight post CCF and CRM								
Exposure class at 31 December 2017 (€m)	**—%**	**10%**	**20%**	**50%**	**100%**	**150%**	**250%**	**Others**	**Total**
Central governments or central banks	22,155	—	—	—	—	—	—	—	22,155
Corporates	—	—	7	47	558	40	—	—	652

External Credit Rating Assessment Institutions (ECAIs)

Exposure class at 31 December 2017 (€m)	Risk Weight post CCF and CRM								
	—%	10%	20%	50%	100%	150%	250%	Others	Total
Covered bonds	—	456	—	—	—	—	—	—	456
Institutions	—	—	5,355	345	—	—	—	—	5,700
Multilateral Development Banks	948	—	—	—	—	—	—	—	948
Other items	—	—	—	—	585	—	1	1	586
Public sector entities	658	—	12	—	—	—	—	—	671
International organisations	399	—	—	—	—	—	—	—	399
Regional governments or local authorities	83	—	—	—	—		—	—	83
Total	**24,244**	**456**	**5,375**	**392**	**1,144**	**40**	**1**	**—**	**31,651**

Exposure class at 31 December 2016 (€m)	Risk weight post CCF and CRM								
	—%	10%	20%	50%	100%	150%	250%	Others	Total
Central governments or central banks	22,418	—	—	—	—	—	—	—	22,418
Corporates	—	—	9	2	206	—	—	—	217
Covered bonds	—	692	—	—	—	—	—	—	692
Institutions	—	—	4,586	918	—	—	—	—	5,504
Multilateral Development Banks	712	—	—	—	—	—	—	—	712
Other items	—	—	—	—	355	—	1	—	356
Public sector entities	—	—	14	—	—	—	—	—	14
International organisations	32	—	—	—	—	—	—	—	32
Total	**23,162**	**692**	**4,609**	**920**	**561**	**—**	**1**	**—**	**29,945**

8 Counterparty Credit Risk

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

Counterparty Credit Risk Exposure €170m

2016: €473m

Risk Weighted Assets €82m

2016: €255m

Counterparty credit risk is the risk of loss arising from a counterparty to a contract recorded in either the trading book or non-trading book where the client defaults 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.

BNYM SANV engages in a variety of risk management activities to control and limit the degree of counterparty risk assumed by its businesses including managing credit risk at the counterparty, portfolio and country level. These risk management activities include:

- Limit management of various counterparty-level exposure metrics
- Netting agreements and collateral exchange terms with counterparties
- Approval and monitoring of collateral exchanges
- Monitoring of wrong-way risk reports
- Monitoring of settlement failures
- Calculation and review of stress and sensitivity metrics
- Other ad hoc analyses

Additionally, BNYM SANV has executed legal agreements with many of its counterparties aiming at reducing counterparty risk inherent in FX and derivative trading activity. The most common legal agreement used by market participants is a master netting agreement that can significantly reduce exposure by permitting effective offsets to “negatively valued” trades existing with the counterparty. Master netting agreements used in connection with BNYM SANV FX and derivative trading activity are usually based on the ISDA Master Agreement developed by the International Swaps and Derivatives Association ('ISDA').

Within a master netting agreement, collateral exchange terms can be defined in a Credit Support Annex ('CSA') to establish rules by which the trading counterparties are required to post collateral to each other against the market value of open trades covered by the agreement.

In certain cases, BNYM SANV will establish collateral exchange terms outside a CSA on a contract by contract basis. This is known as trade-specific collateral, and can take the form of an initial cash or security posting to cover the potential future exposure of a particular trade.

As at 31 December 2017, BNYM SA/NV has derivative positions in the form of FX swaps used to manage liquidity and FX swaps coming from the FX client activity.

Table 20: Analysis of the counterparty credit risk (CCR) exposure by approach

This table shows the risk mitigating impact of netting and collaterisation on counterparty credit risk relating solely to foreign currency derivative contracts under the mark-to-market method.

Counterparty credit risk (€m)		
Derivatives - Mark to Market method	**31 December 2017**	**31 December 2016**
Gross positive fair value of contracts	—	—
Potential future credit exposure	233	261
Netting benefits	**(163)**	**(7)**
Net current credit exposure	176	473
Collateral held notional value	6	—
Net derivatives credit exposure	170	473
Risk weighted assets	82	255
SFT - under financial collateral comprehensive method	**31 December 2017**	**31 December 2016**
Net current credit exposure	—	—
Net SFT credit exposure	—	—
Risk weighted assets	—	—
Total counterparty credit risk exposure	**170**	**473**

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.

Table 21: Credit valuation adjustment capital charge

This table shows the credit valuation adjustment using the standardised approach.

At 31 December 2017 (€m)	Exposure value	RWA
All portfolios subject to the standardised approach	166	28
Total subject to the CVA capital charge	**166**	**28**

Table 22: CCR exposures by exposure class and risk weight

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

Exposure class at 31 December 2017 (€m)	—%	20%	50%	100%	150%	Others	Total	Unrated
Central governments and central banks	9	—	—	—	2	—	11	—
Corporates	—	3	—	58	—	—	61	—
Covered bonds	—	—	—	—	—	—	—	—
Institutions	—	96	—	1	—	—	97	—
Multilateral Development Banks	—	—	—	—	—	—	—	—
Other items	—	—	—	—	—	—	—	—
Public sector entities	—	—	—	—	—	—	—	—
Regional governments or local authorities	—	—	—	—	—	—	—	—
					—			
Total	**9**	**100**	**—**	**59**	**2**	**—**	**170**	**—**

Exposure class at 31 December 2016 (€m)	—%	20%	50%	100%	150%	Others	Total	Unrated
Central governments and central banks	4	—	—	—	—	—	4	—
Corporates	—	19	—	200	—	—	219	—
Covered bonds	—	—	—	—	—	—	—	—
Institutions	—	249	—	1	—	—	250	—
Multilateral Development Banks	—	—	—	—	—	—	—	—
Other items	—	—	—	—	—	—	—	—
Public sector entities	—	—	—	—	—	—	—	—
					0			
Total	**4**	**268**	**—**	**201**	**—**	**—**	**473**	**—**

Table 23: Impact of netting and collateral held on exposure values

This table provides an overview of the collateral held on exposures.

At 31 December 2017 (€m)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives by underlying	339	(163)	176	6	170
Securities Financing Transactions	—		—	—	—
Cross-product netting	—		—	—	—
Total	**339**		**176**	**6**	**170**

Composition of collateral for exposures to counterparty credit risk: BNYM SA/NV did not hold any collateral relating to CCR in 2017.

9 Asset Encumbrance

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

Carrying Amount - Encumbered Assets €2,954m

Carrying Amount - Unencumbered Assets €33,917m

As from 2016, BNYM SA/NV invests in certificates of deposits that are further on pledged as collateral to Euroclear. BNYM SA/NV has signed a collateral agreement with Euroclear to cover an intraday credit line for $2.1bn.

On September 6, 2016, BNYM SA/NV signed a pledge agreement with Monte Titoli SpA to reward for tax representative services related to Italian securities. The pledge is used as a security for the discharge in full and payment of the Secured Obligations (in accordance with the Financial Collateral Law and the Royal Decree N°62 as defined in the contract). The pledge has been set to €1m and it could be both cash or eligible securities.

As of 31 December 2017, the carrying and fair value of encumbered assets by type of assets were as follows:

Table 24: Encumbered assets

	Encumbered assets				Unencumbered assets			
At 31 December 2017 (€m)	Carrying amount	of which notionally eligible EHQLA and HQLA	Fair value	of which notionally eligible EHQLA and HQLA	Carrying amount	of which EHQLA and HQLA	Fair value	of which EHQLA and HQLA
Assets of the reporting institution	**2,954**	**2,937**			**33,917**	**23,557**		
Loans on demand	346	329			18,388	11,457		
Debt securities	2,608	2,608	2,609	2,609	12,100	12,100	12,102	12,102
of which:								
covered bonds	856	856	857	857	782	782	782	782
issued by general governments	1,536	1,536	1,536	1,536	9,367	9,367	9,369	9,369
issued by financial corporations	1,072	1,072	1,073	1,073	2,733	2,733	2,733	2,733
Loans and advances other than loans on	7	—	—	—	2,107	—	—	—
Other assets	—	—			1,257	—		

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

The carrying amount of the debt securities refer to Monte Titoli pledged security and the certificates of deposits pledged to Euroclear. Other assets encumbered refer to monetary reserves, mainly placed with the NBB, treated as encumbered assets as these cannot be not freely withdraw to BNYM SA/NV.

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

Table 25: Collateral encumbrance

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	
		of which notionally elligible EHQLA		of which EHQLA and HQLA
Total assets, collateral received and own debt securities issued	**2,960**	**2,937**		

Table 26: Sources of encumbrance

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	158	70
Derivatives	82	24
of which: Over-The-Counter	82	24
Deposits	76	76
Collateralised deposits other than repurchase agreements	76	76
Other sources of encumbrance	—	2,861
Other	—	2,861
Total sources of encumbrance	**158**	**2,931**

Note: ABS (Asset-Backed Securities)

BNYM SA/NV has no own debt securities issued. Other sources of encumbrance refer to the monetary reserves at central banks, Monte Titoli pledged security and the certificates of deposits pledged to Euroclear referred above.

10 Market Risk

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017*.

Market Risk Weighted Assets

€0m

2016: €59,823m

Market Risk Capital Requirements

€0m

2016: €4,786m

* As from Q3 2017 BNYM SA/NV applied article 351 of the CRR on foreign-exchanged risk which meant that it was no longer required to calculate this as the own funds requirement for foreign-exchange risk does not exceed 2% of the total own funds.

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

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

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

BNYM SA/NV is currently exposed to four types of market risk: (a) currency risk, (b) Credit Valuation Adjustment (CVA), (c) interest rate risk and (d) credit spread risk.

a) BNYM SA/NV revenues are denominated in a mix of currencies whereas a high proportion of BNYM SA/NV's costs are denominated in Euro. Apart from the risk of currency mismatch between revenues and cost, BNYM SA/NV is not significantly exposed to this risk
b) CVA risk relates to the FX swaps used in the context of Treasury management and FX swaps client activity
c) BNYM SA/NV interest rate income is subject to the risk that as market interest rates tend toward zero or below, BNYM SA/NV cannot pass all of the interest rates reduction to its client. Interest rate risk in the banking book will also arise from maturity or re-pricing mismatches and from products that include embedded optionality; the risk could crystallize with changes in interest rate risk/the shape of the yield curve
d) The securities portfolio bears additional credit spread risk

Daily limits are monitored by a dedicated market risk officer who ensures that BNYM SA/NV operates in accordance with the limits set down in the BNYM SA/NV risk appetite and reported on a regular basis to senior management.

Table 27: Market risk - risk weighted assets and capital required

This table shows the components of the capital requirements and risk weighted assets for market risk using the standardised approach at 31 December 2017.

Position risk components at 31 December 2017 (€m)	Risk weighted assets	Capital requirements
Foreign exchange risk	—	—
Total	**—**	**—**

11 Interest Rate Risk in the Banking Book

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

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

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

Interest rate risk in the banking book (IRRBB) is composed of:

- Bank placements of a short-term nature. The maturity of cash placements (EUR, GBP and USD) with affiliated entities (BNY Mellon Group) range from overnight up to one month, while placements with external banks are typically overnight deposits or cash held on demand nostro balances
- The bond portfolio (securities portfolio): the size and the risk profile of the portfolio are governed by the Belgium ALCO. The portfolio is operationally managed by Corporate Treasury and is used as liquidity buffer. The bond portfolio is not hedged for interest rate risk purposes
- Client deposits (Vostro balances): third party and affiliated deposits are mostly demand deposit accounts. Depending on the contract the rate paid on the deposits can either track an index, a market rate or a central bank rate, or the rate can be fixed by BNYM SA/NV performs an interest rate sensitivity analysis which is reported to the Belgium ALCO on a monthly basis. It reflects the sensitivity of the money market placement book and the securities portfolio only. It does not include any behavioural sensitivity on the liability side of the balance sheet or interest sensitivity of the trading books e.g. FX swaps etc. IRR exposure has a daily value-at-risk (VaR) calculation against a stop loss limit and is monitored daily by the Market Risk Management team to ensure that BNYM SA/NV operates within its risk appetite. Any breaches are reported to the RMC and the Board

For regulatory purposes (COREP), an interest rate sensitivity analysis is prepared on a quarterly basis as shown below this paragraph. The economic value of the banking book is determined by discounting the future cash flows for assets and liabilities present in this book, in accordance with the provisions of NBB Circular 2015_24. The sensitivity of the economic value to interest rate shocks is presented in the first column, whereas the extent the net interest income is sensitive to interest rate movements compared to the amount in 2016 is presented in the columns to follow.

Table 28: Net interest income sensitivity by currency

This table shows the net interest income sensitivity for BNYM SA/NV by interest scenario at 31 December 2017.

	Equity sensitivity	Income sensitivity			
		Interest result			
	Economical value banking book	Effective	Expected		
Interest scenario's (€m)		Previous 12 months	Coming 12 months	Coming months 13 till 24	Coming months 25 till 36
Total					
Parallel interest increase with 300 bp	641		72	180	260
Parallel interest increase with 200 bp	699		99	174	228
Parallel interest increase with 100 bp	753		113	156	185
No movement	797	111	115	129	131
Parallel interest fall with 100 bp	650		138	126	120
Parallel interest fall with 200 bp	569		114	84	72
Parallel interest fall with 300 bp	549		110	78	65
EUR					
Parallel interest increase with 300 bp	6,004		63	97	150
Parallel interest increase with 200 bp	6,069		62	83	117
Parallel interest increase with 100 bp	6,131		38	45	60
No movement	6,183	—	7	2	(2)
Parallel interest fall with 100 bp	6,061		52	45	40
Parallel interest fall with 200 bp	5,995		52	45	39
Parallel interest fall with 300 bp	5,995		52	45	39
GBP					
Parallel interest increase with 300 bp	(1,731)		(6)	4	10
Parallel interest increase with 200 bp	(1,740)		(4)	2	6
Parallel interest increase with 100 bp	(1,749)		5	8	10
No movement	(1,759)	25	20	22	22
Parallel interest fall with 100 bp	(1,786)		19	17	16
Parallel interest fall with 200 bp	(1,794)		19	17	15
Parallel interest fall with 300 bp	(1,794)		19	17	15
USD					
Parallel interest increase with 300 bp	(537)		22	83	104
Parallel interest increase with 200 bp	(536)		47	93	110
Parallel interest increase with 100 bp	(534)		74	105	116
No movement	(533)	79	90	106	111
Parallel interest fall with 100 bp	(531)		75	73	73
Parallel interest fall with 200 bp	(538)		57	38	32
Parallel interest fall with 300 bp	(558)		55	33	27

Note: bp = base points

12 Operational Risk

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

Operational Risk Exposure Amount €1,109m

2016: €1,023m

Operational Risk Capital Requirements €89m

2016: €82m

Operational Risk arises from inadequate or failed internal processes, people and 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.

Key operational risks for BNYM SA/NV include:

- Internal and external fraud
- Business Disruption & System Failures
- Damage to Physical Assets
- Employment Practices & Workplace Safety
- Clients, Products & Business Practices

Given BNYM SA/NV's role as a major custodian, processing and fiduciary service provider, BNYM SA/NV considers that operational risk is an important risk. Indeed, this risk materializes the biggest loss events.

12.1 Operational Risk Management Framework

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

Figure 4: Operational Risk Management Framework

The ORMF provides the processes and tools necessary to fulfill a strategy of managing risk through a culture of risk awareness, a clear governance structure, well defined policies, procedures and reporting and suitable tools for reporting and monitoring to effectively identify, manage, mitigate, monitor and report the risks in an organized way to the appropriate governance bodies.

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

- 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 for though out the course of their business activities
- The second line of defense, the independent Risk Management function, is responsible for reviewing and challenging the risks identified, assessed and managed by the first line of defense. EMEA Risk management, including the LERO, is also responsible for building and maintaining the ORMF framework and partnering the first line of defense to enable them to embed it
- The third line is Internal Audit (organizationally independent from both the first and second line of defense). A key responsibility of the third line as it pertains to the Operational Risk 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 RMC.

Management of Operational risk

BNYM SA/NV ORMF relies on a culture of risk awareness, a clear governance structure and, Operational Risk policies and procedures, which define the roles and responsibilities of the first, second and third line of defense. These policies and procedures complement each other to ensure that the operational risks of the business are effectively identified, managed, mitigated (where possible) and reported to the appropriate governance committees on a monthly basis.

BNYM SA/NV uses the ORMF to capture, analyse and monitor its operational risks. Below is an explanation of how the tools are used to manage the operational risks of the business. 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 company is willing to assume after considering topics such as its strategic business objectives and business plan, the major risks facing the company and its risk capacity. BNYM SA/NV has, in line with the Enterprise risk policy for risk appetite, set a risk appetite statement which recognizes the inherent nature of Operational risk and the reliance on the ORMF to mitigate it
- **Risk Register** - BNYM SA/NV 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 Control-Self Assessments (RCSA)** - A comprehensive process 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 (OREs)** - A standard for the capture, notification and reporting of Operational Risk Events. The collection of internal loss data provides information for assessing the company'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

  OREs are mapped to Basel II operational risk event categories and the impact to BNYM SA/NV is identified. Information on operational risk event losses or gains exceeding $10,000 (USD) are analyzed 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 $10,000) are reviewed for root cause and possible mitigating actions are reported to the RMC monthly
- **Key Risk Indicators** - Key risk metrics designed to monitor activities which could cause financial loss or reputation damage to BNYM SA/NV. Periodic and consistent monitoring of KRIs ensures that deviations from predetermined standards can be identified
- **High Level Assessments** - The High Level Assessment (HLA) is an independent business level qualitative assessment performed at the the Lines of Business/Business Partner Group level. It is a consolidated review that analyzes 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 Lines of 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.

  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 Legal Entity Operational Risk Officer who needs to form a view on the risks the Business Lines operating in BNYM SA/NV have identified

- **Operational Risk Scenario Analysis (ORSA)** - Operational risk scenario analysis is used by BNYM SA/NV to identify and assess plausible, high impact, low probability Operational Risk loss events using a combination of the Operational Risk data and expert management judgment. 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 the calculation of Operational Risk capital by using the output of scenario analysis (frequencies and severities) as an input for Pillar II operational risk capital modeling

Monitoring and reporting

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

Monitoring and reporting of operational risks occur within the business, Legal Entity and EMEA-region risk oversight functions, as well as decision-making forums such as business risk committees and the RMC.

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

Policies and procedures

BNYM SA/NV utilizes comprehensive policies and procedures designed to provide a sound operational environment. The Corporate Operational Risk Policies are reviewed and enhanced on an ongoing basis, and adopted by all businesses/Legal Entities including BNYM SA/NV.

Organization and governance

Within BNYM SA/NV, business risk partners oversee the activities undertaken in each of the business lines, with oversight from a Legal Entity point of view through the LERO. Besides business risk partners and LEROs other internal functions also ensure that processes are in place to support the sound operational risk management of the business, notably:

- **Technology Risk Management (TRM)** - TRM is a 2^{nd} Line of Defense group that provides oversight and challenge of the 1^{st} line's management of technology risk. TRM works in partnership with BNY Mellon Businesses and Business Partners to help protect the company and its clients from cyber and information risks.
- **Business Continuity Planning (BCP)** - This function is responsible for the governance of planning for continued service in the face of external events, and utility or system outages or disruptions. The BCP function has clear escalation processes and plans available; Crisis Management Teams (CMT) are in place to oversee any issue escalation, whilst the Communication Task Force (CTF) is responsible for approved communication with employees, clients and other stakeholders. Operational staff (business plan owners) are responsible for identifying a business impact analysis, and maintaining a business continuity plan for their specialist area. These plans set out information such as recovery requirements, alternative sites, training and evacuation procedures.
- **Third Party Governance** - BNYM SA/NV uses outsourcing to support its daily business activities. The BNYM SA/NV Board of Directors retains the ultimate responsibility for any outsourcing arrangement and accordingly, ensures the establishment and maintenance of an adequate outsourcing framework covering all key components of the outsourcing life-cycle. To ensure appropriate oversight of outsourced activities, the Business/Business Partner Groups ensure that all outsourced activities are identified, assessed, approved and appropriately managed throughout the life of the outsourced relationship.

Decisions to control, transfer, accept or avoid risks are conducted through a combination of business and legal entity governance bodies in line with the hybrid organisation structure of BNY Mellon.

Enhancements to the Operational Risk Framework as at H2 2017

Since the last ICAAP was submitted there have been several developments within Operational Risk, as outlined below:

- BNYM EMEA Internal Audit conducted a review of the embedding of remediation in the EMEA Operational Risk Framework. The report, issued during H2, rated the internal control environment as ‘Satisfactory’. The overall control environment surrounding the current state of embeddedness of remediation actions into the Operational Risk Framework of the Legal Entities in EMEA was considered to be generally effective, relating to Operational Risk Appetite, Operational Risk Management Information, and Legal Risk. In addition to the above, Internal Audit acknowledged that the regional and global Operational Risk Framework was still improving, and significant progress had already been made by Operational Risk to further enhance the Framework and address regulatory findings and expectations via numerous initiatives.
- Scenario Analysis - Following the strategic review of the EMEA Scenario Analysis process in H1 2016, a number of regional enhancements were delivered in 2017 including a single common process, development of a set of core scenarios covering the full scope of the operational risk taxonomy and further leverage of the group-wide scenarios, enabling better integration with the corporate approach and an enhanced process of review and challenge.
- RCSAs for tier 1 to 4 Critical Business Services across BNY Mellon have been enhanced in accordance with the policy standard introduced in August 2016. This activity also involved aligning to the new Operational Risk taxonomy to facilitate consistent risk identification and reporting.
- ORE - Work to align historic OREs to the current Taxonomy has been completed.

Planned Enhancements to the Operational Risk Framework

The following enhancements are foreseen for 2018:

- Risk Appetite - BNYM SA/NV will continue to embed and align its Risk Appetite with the refreshed BNYM Corporate risk appetite policy and statement. Work to further enhance the linkage between the strategy of BNYM SA/NV, the risk profile and the articulation of risk appetite is ongoing.
- Scenario Analysis - BNYM SA/NV intends to implement a quarterly review process to ensure that coverage of scenario analysis is maintained in line with the risk profile of the entity, prompting amendments to existing scenarios where there is material change.
- RCSA - Further work is required to enhance the Legal Entity identification within the RCSAs, which will further enhance BNYM SA/NV's assessment of its risk profile.

Regulatory and Compliance risk management

The BNYM SA/NV Compliance Department is comprised of Compliance Officers based in Brussels, Frankfurt, Amsterdam, Dublin, Luxembourg, Milan and London. BNYMSKVG is required to maintain a separate compliance function. As part of the second line of defense, the compliance department shares a joint responsibility with Legal, HR, Finance and Risk to implement policies as required in order to ensure that BNYM SA/NV operates within the scope of its license and in compliance with applicable regulatory requirements.

The key responsibilities of the Compliance Department as part of the second line of defense are to identify applicable laws and regulations, provide advice regarding the implementation of those regulations falling under its material scope of oversight, monitor compliance by the relevant functions, report on identified weaknesses and manage the relationship with regulators.

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

12.2 Capital Resource Requirement

Capital requirement for operational risk Pillar 2 (using an internal hybrid model) resulted in an amount of €150m (2016: €160m), versus the Pillar 1 calculation of €89m (2016: €82m) in 2017.

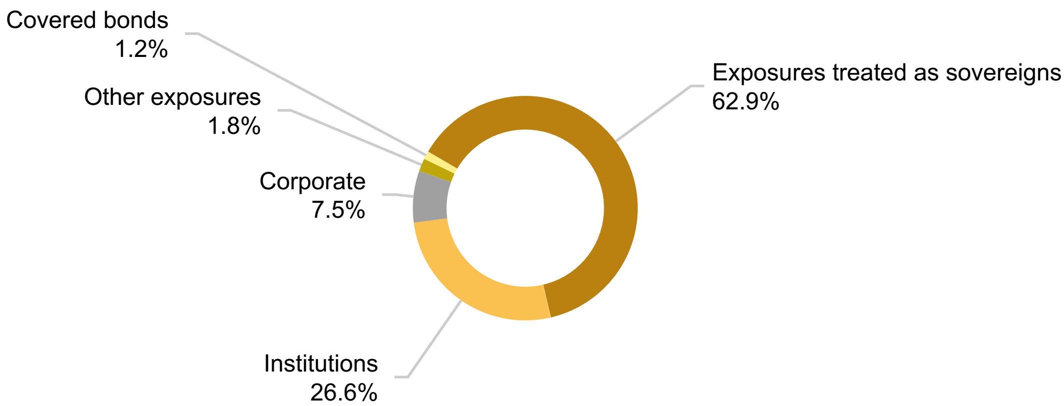
13 Leverage

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

Total Leverage Ratio Exposure €38,559m

Leverage Ratio 7.2%

CRR Banking Book Leverage Ratio Exposures



The leverage ratio by is defined as the capital measure (the numerator) divided by the total exposure measure (the denominator), with this ratio expressed as a percentage:

$$\text{Leverage ratio} = \frac{\text{Capital measure}}{\text{Exposure measure}}$$

The capital measure for the leverage ratio is the Tier 1 capital of the risk-based capital framework, taking into account transitional arrangements. Total exposure measure is the sum of the following exposures:

- On-balance sheet exposures
- Derivate exposures
- Security financing transaction (SFT) exposures
- Off-balance sheet items

Leverage ratio calculation for BNYM SA/NV as of 31 December 2017 is presented below:

Table 29: Leverage ratio summary

This table shows BNYM SA/NV summary reconciliation of accounting assets and leverage ratio exposures.

Leverage ratio summary at 31 December 2017 (€m)	
Total assets as per published financial statements	36,812
Off-balance sheet items	12
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	1,747
(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	135
Adjustments for securities financing transactions (SFTs)	—
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	2
(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)	(11)
Other adjustments	(140)
Total leverage ratio exposure	**38,559**

Table 30: 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)	38,813
Asset amounts deducted in determining Tier 1 capital	(425)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**38,388**
Derivative exposures	
Replacement cost associated with derivatives transactions	40
Add-on amounts for PFE associated with derivatives transactions	135
Exposure determined under Original Exposure Method	—
Total derivative exposures	**176**
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

Regulatory leverage ratio exposures at 31 December 2017 (€m)	
Adjustments for conversion to credit equivalent amounts	(10)
Total off-balance sheet exposures	**2**
Capital and Total Exposures	
Tier 1 capital	**2,774**
Exposures of financial sector entities according to Article 429(4) 2nd of CRR	—
Leverage Ratios	
Total Exposures	**38,599**
End of quarter leverage ratio	**7.2%**
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	—

Table 31: Composition of on-balance sheet exposures

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

CRR leverage ratio exposures at 31 December 2017 (€m)	
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**38,522**
Trading book exposures	—
Banking book exposures, of which:	38,522
Covered bonds	456
Exposures treated as sovereigns	24,244
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	12
Institutions	10,229
Secured by mortgages of immovable properties	—
Retail exposures	—
Corporate	2,871
Exposures in default	—
Other exposures	709

The Board is committed to ensuring that the BNYM SA/NV is well capitalised at all times. The level of regulatory capital held by BNYM SA/NV shall always be in excess of current regulatory requirements and shall not fall below levels approved by the Board. Leverage ratio requirements shall be monitored as part of the regulatory reporting process and shall not fall below the internal (risk appetite) limits of 3.5% in 2017 and increasing to 4% in 2018, as measured on a quarter end basis.

The internal and external limits with respect to the leverage ratio requirements for BNYM SA/NV will be proposed once the final regulatory definition has been issued for the binding requirement starting 1 January 2018. The leverage ratio is reported internally on a regular basis for monitoring purposes and a full calculation of exposure and capital is performed quarterly per the COREP process.

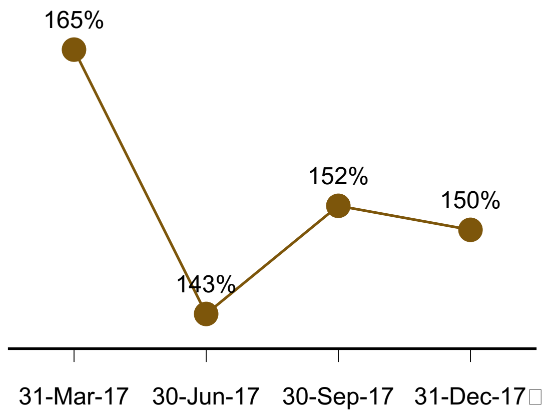
14 Liquidity Coverage Ratio

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

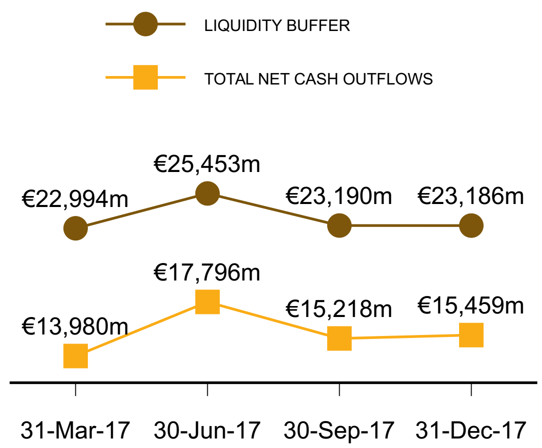
Liquidity Coverage Ratio 150.0%

Liquidity Buffer €23,186m

Liquidity Coverage Ratio Trend



Liquidity Metrics Trend



The Liquidity Coverage Ratio (LCR) is recalculated according to the regulatory formula assessing the liquid assets, weighted according to the regulatory factors, as a fraction of the combination of inflows of assets and outflows of liabilities, each weighted according to regulatory factors. The risk appetite of this ratio is set to 120% at end of December 2017.

A BNYM SA/NV Liquidity Policy provides the framework for identifying, measuring, monitoring, and managing liquidity risk for BNYM SA/NV. This policy has been prepared in accordance with the BNY Mellon Liquidity Policy and regulatory guidelines taking into account the capital structure, risk profile, complexity, activities and size of BNYM SA/NV.

The governance structure includes:

- Oversight committees (including the Belgium ALCO, ExCo and Board) that are responsible for review and approval of the liquidity management strategy, policies and practices and that ensures that senior management effectively implements and controls these elements
- Day-to-day liquidity management, which is the functional responsibility of Corporate Treasury with independent oversight from the Risk Management function

BNYM SA/NV has an embedded set of processes that cover the identification, measurement, monitoring, control and mitigation of liquidity risk. Processes are supported by IT platforms, management information systems and an organizational structure that includes independent control functions.

BNYM SA/NV has in place a management reporting and escalation framework where risks are communicated to senior management and oversight committees through periodical reporting and circulation of committee meeting minutes, including a defined escalation process in case of exceptions to internal triggers, regulatory breaches or emergency situation.

Regulatory reporting performed by the Finance function in line with home/host regulatory requirements.

Written and approved policies that define the liquidity risk appetite and tolerance, strategy, principles and includes reporting requirements to appropriate management levels. BNYM SA/NV has in place the following policies and guidelines for managing liquidity and funding risk that are updated at least annually:

- BNYM SA/NV Liquidity Policy (including Contingency Funding Plan);
- BNYM SA/NV Placement policy (Appendix to BNYM SA/NV Liquidity Policy and Contingency Funding Plan);
- BNYM SA/NV Procedures Corporate Treasury policy for FX Swaps; and
- BNYM SA/NV Guidelines for Investments in Securities.

As per the approval of the BNYM SA/NV ILAAP, management formally declares adequacy of its liquidity risk management framework.

Based on the liquidity risk management self-assessment requirements outlined in the supervisory expectations for ILAAP, BNYM SA/NV believes to be adequately compliant with the key principles defined around liquidity management. BNYM SA/NV therefore considers itself to be compliant with BNYM SA/NV and BNY Mellon Group policies and ECB / NBB regulations for liquidity risk management and therefore believes that the liquidity management process in place is adequate.

Table 32: Unweighted cash outflows and inflows

Consolidated (€m)	Total unweighted value (average)			
Quarter ending on	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17
Number of data points used in the calculation of averages	7	10	12	12
Cash – Outflows				
Retail deposits and deposits from small business customers, of which:	—	—	—	—
Stable deposits	—	—	—	—
Less stable deposits	—	—	—	—
Unsecured wholesale funding	32,273	33,202	33,367	34,006
Operational deposits (all counterparties) and deposits in networks of cooperative banks	14,368	15,039	15,398	15,589
Non-operational deposits (all counterparties)	17,905	18,163	17,969	18,417
Unsecured debt	—	—	—	—
Additional requirements	258	208	208	233
Outflows related to derivative exposures and other collateral requirements	258	208	208	233
Outflows related to loss of funding on debt products	—	—	—	—
Credit and liquidity facilities	—	—	—	—
Other contractual funding obligations	626	711	743	840
Other contingent funding obligations	—	—	—	—
Cash – Inflows				
Secured lending (e.g. reverse repos)	—	—	—	—

Consolidated (€m)	Total unweighted value (average)			
Quarter ending on	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17
Number of data points used in the calculation of averages	7	10	12	12
Inflows from fully performing exposures	9,605	9,347	9,096	9,177
Other cash inflows	476	525	623	608
Total Cash Inflows	**10,082**	**9,872**	**9,718**	**9,785**
Fully exempt inflows	—	—	—	—
Inflows subject to 90% cap	—	—	—	—
Inflows subject to 75% cap	10,082	9,872	9,718	9,785

Table 33: Weighted cash outflows and inflows

Consolidated (€m)	Total weighted value (average)			
Quarter ending on	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17
Number of data points used in the calculation of averages	7	10	12	12
High-Quality Liquid Assets				
Total high-quality liquid assets (HQLA)	23,389	24,023	23,804	24,012
Cash – Outflows				
Retail deposits and deposits from small business customers, of which:	—	—	—	—
Stable deposits	—	—	—	—
Less stable deposits	—	—	—	—
Unsecured wholesale funding	21,429	21,841	21,730	22,238
Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,592	3,760	3,849	3,897
Non-operational deposits (all counterparties)	17,837	18,081	17,881	18,341
Unsecured debt	—	—	—	—
Secured wholesale funding	—	—	—	—
Additional requirements	258	208	208	233
Outflows related to derivative exposures and other collateral requirements	258	208	208	233
Outflows related to loss of funding on debt products	—	—	—	—
Credit and liquidity facilities	—	—	—	—
Other contractual funding obligations	462	541	581	646
Other contingent funding obligations	—	—	—	—
Total Cash Outflows	**22,149**	**22,590**	**22,519**	**23,116**
Cash – Inflows				
Secured lending (e.g. reverse repos)	—	—	—	—
Inflows from fully performing exposures	7,670	7,450	7,204	7,428
Other cash inflows	189	191	210	201
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	—	—	—	—
(Excess inflows from a related specialised credit institution)	—	—	—	—
Total Cash Inflows	**7,859**	**7,642**	**7,414**	**7,629**

Consolidated (€m)	Total weighted value (average)			
Quarter ending on	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17
Number of data points used in the calculation of averages	7	10	12	12
Fully exempt inflows	—	—	—	—
Inflows subject to 90% cap	—	—	—	—
Inflows subject to 75% cap	7,859	7,642	7,414	7,629
Total Adjusted Value				
Liquidity Buffer	22,994	25,453	23,190	23,186
Total Net Cash Outflows	13,980	17,796	15,218	15,459
Liquidity Coverage Ratio (%)	**164.5%**	**143%**	**152.4%**	**150.0%**

15 Remuneration

The following risk metrics present BNYM SA/NV's risk components as at 31 December 2017.

Total Remuneration	€15.2m
Total Deferred Variable Remuneration Outstanding From Previous Years	€5.6m

15.1 Governance

The Board is responsible for the remuneration policy and its application. The Board ensures that variable remuneration plans and the awards paid in execution of them do not jeopardize a sound capital base and are in line with BNYM SA/NV's risk appetite and long term strategy. It is assisted in this by the Remuneration Committee ('Rem Co') of the Board. The Rem Co advises the Board on the remuneration policy. The Rem Co also reviews annually the list of staff that have a material impact on the risk profile of BNYM SA/NV ('Identified Staff' or 'MRTs'), and their variable compensation awards, and any ex-post risk adjustment to be applied, before submitting the proposals to the Board (in session with the non-executive directors only) for approval.

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

The Rem Co is assisted in its task by BNY Mellon's EMEA Remuneration Governance Committee ('ERGC') which was set-up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses, including BNYM SA/NV. Remuneration policy decisions of BNYM SA/NV including its branches and subsidiary rest however with the Board, which meets at least quarterly and also approves the year-end compensation awards of its regulated staff members. The Rem Co met six times during 2017. Awards in instruments are made in the form of shares of The Bank of New York Mellon Corporation. These shares are listed on the New York Stock exchange under ticker "BK". Deferred shares are made in the form of Restricted Share Units, transferable into BK shares at vesting. These grants also require the approval of the Human Resources and Compensation Committee ('HRCC') of BNY Mellon, since it functions as the remuneration committee of the ultimate shareholder of BNYM SA/NV.

15.2 Aligning Pay with Performance

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

Through BNY Mellon's compensation philosophy and principles, BNY Mellon aligns the interests of its employees and shareholders 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. BNY Mellon aims 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.

15.3 Fixed Remuneration

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

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

Employees who act as directors of one or more BNY Mellon legal entities are not remunerated for their mandate as a director. Independent directors of BNYM SA/NV only receive fixed remuneration.

15.4 Variable Compensation Funding and Risk Adjustment

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

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

BNYM SA/NV makes use of the robust performance appraisal system in place at BNY Mellon to document an individual's performance. This contains not only agreed and individualized business goals, but also a compulsory risk management goal and a compliance and ethics goal. The behaviour of previously identified staff members with regard to risk was in 2017 evaluated through a risk culture summary scorecard, detailing any issues related to risk, compliance or audit issues. No incident occurred in 2017 and as a result, no reduction of variable compensation for performance year 2017 was applied.

15.5 Ratio between Fixed and Variable Pay

Material Risk Takers of BNYM SA/NV are restricted to a maximum variable remuneration of the greater of €50,000 and 100% of fixed remuneration, or 50% of fixed remuneration, in line with the Belgian Banking Law.

15.6 Deferral Policy and Vesting Criteria

For Identified Staff or MRTs, variable compensation is split into four different parts: upfront cash, upfront equity, deferred cash and deferred equity. The portion of variable compensation that is deferred is under ordinary circumstances deferred for a period of at least three years and for a period of five years for senior managers. Pro rata vesting applies. The deferred component of the variable compensation award is partly delivered as restricted stock units whose value is linked to the BK share price on the stock exchange, partly in cash. The percentage of the variable compensation award to be deferred depends on the level of the position. For unregulated staff or MRTs whose variable compensation falls below the threshold determined by the regulator, the portion of variable compensation that is deferred depends on the level of the position and the amount of the award. Their deferred component consists entirely of restricted share units. All deferred awards are subject to terms and conditions that provide for forfeiture (malus) or clawback in certain circumstances.

15.7 Variable Remuneration of Control Function Staff

The variable compensation awarded to control function staff (e.g. audit, legal, risk and compliance) 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.

Control functions typically receive a lower portion of their total compensation as variable.

15.8 Quantitative Disclosures

The tables below provide details of the aggregate remuneration of senior management and Material Risk Takers (MRT) for BNYM SA/NV for the year ended 31 December 2017.

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

Table 34: Aggregate remuneration expenditure by business

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

(€000s)	Investment services	Other [2]	Total
Total remuneration[1]	**8,778**	**6,389**	**15,167**

[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 35: Aggregate remuneration expenditure by remuneration type

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

	Senior management[3]	Other MRTs	Total
Number of beneficiaries	25	33	58
Fixed remuneration[4]	6,630	5,305	11,935
Total variable remuneration (€000s)	1,660	1,572	3,232
Variable cash (€000s)	820	1,062	1,882
Variable shares (€000s)	840	510	1,350
Total deferred remuneration awarded during the financial year (€000s)	820	455	1,275
Total deferred remuneration paid out during the financial year (€000s)	1,357	509	1,865

	Senior management[3]	Other MRTs	Total
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 36: Deferred variable remuneration

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

	Senior management	Other MRTs	Total
Number of beneficiaries	23	24	47
Total deferred variable remuneration outstanding from previous years (€000s)	3,951	1,637	5,588
Total vested (€000s)[5]	1,357	509	1,865
Total unvested (€000s)[6]	2,595	1,128	3,723

[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, 2017.

Table 37: New sign-on and severance payments

This table shows the number and value of new sign-on and severance payments made during 2017.

	Senior management	Other MRTs	Total
Number of sign-on payments awarded	—	—	—
Value of sign-on payments awarded (€000s)	—	—	—
Number of severance payments awarded	2	—	2
Value of severance payments awarded (€000s)	1,234	—	1,234
Highest individual severance payment awarded (€000s)	1,127	—	1,127

Remuneration (EUR 1 million or more)

In regards to 2017, one individual was remunerated (including severance payment) EUR 1 million or more.

Appendix 1 Other Risks

Liquidity Risk

BNYM SA/NV 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.

BNYM SA/NV has a strong liquidity risk management culture and liquidity risk management is demonstrably embedded in its policies and processes.

The goal of BNYM SA/NV's liquidity management is to ensure that all liquidity risks are defined, understood, and effectively managed through well-designed policies and controls. In this context, BNYM SA/NV has established a robust liquidity risk management framework that is fully integrated into its risk management processes.

The liquidity risk management framework, is prepared in accordance with the guidelines set forth by the regulators, corporate standards, and encompasses the unique structure and characteristics of BNYM SA/NV.

Business and Financial Risk

Legal Entity and Business Risk

Business Acceptance Workgroups are responsible for aligning new business to appropriate business lines and subsidiaries, assessing and approving the associated risks.

Each legal entity has a risk manager aligned to the business. Risk managers are independent of the business and oversee the adherence to corporate risk policies and governance requirements. The risk management organisation is based on a three tiered structure beginning with corporate risk which creates the corporate policies, Risk management form the second tier, and the third tier is the operational unit which is considered to be the primary owner of all risk relating to the business activities. Each operational unit has a dedicated Embedded Control Management (ECM) resource assigned to it. At the direction of the business or the Global Operational Control management team, the ECM resource will conduct testing of the operational activities to support internal and external audit work.

Regulatory and Compliance Risk

Compliance risk is comprised of sustaining loss arising from non-compliance with laws, directives, regulations, reporting standards and lack of adequately documented and understood processes. Regulatory risk is mitigated using Stress Testing that is carried out on a regular basis, and prior to any regulatory changes enters into force.

Monitoring & Reporting Risk is the risk of loss arising from a failure to comply with financial reporting standards, agreements or regulatory requirements. This includes risks resulting from action taken by existing and new stockholders, regulators and investors who may have sustained losses due to incomplete, inaccurate or untimely reporting of financial performance.

BNYM SA/NV aims to comply with the applicable laws, regulations, policies, procedures and BNYM SA/NV's Code of Conduct. Existing and new directives and regulations are monitored and reviewed by Compliance and Risk management and findings are reported to senior management and the Board. Strategies and preparations to comply with regulations are put in place when necessary.

Conduct Risk

The risk that detriment is caused to clients, the market, the Firm or its employees because of inappropriate execution of our business activities or inappropriate behavior by BNY Mellon or its employees.

Reputation Risk

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

BNY Mellon relies heavily on its reputation and standing in the market place to retain and attract clients. Through analysis of other risks, potential reputational impacts have been identified as follows:

- Group default or reputational event could lead to loss of confidence in the brand
- Legal or operational event leading to publicised failure could lead to loss of confidence in the brand
- Inability to provide products and services that fulfil local and/or international law, compliance directives or regulations. This may also result in regulatory penalties and subsequent loss of business

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.

BNYM SA/NV is not subject to settlement risk as it holds no commodities commitments to settle during the reporting period. This risk is monitored for the transactions pertaining to the securities portfolio. BNYM SA/NV has no trading book. The bank transacts FX trades for banking book purposes with intra-group legal entities and trades are settled within one business day. To date, the bank has not experienced any unsettled FX transactions.

Non-Trading Book Exposures in Equities

BNYM SA/NV 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 BNYM SA/NV has securitised is insufficient to cover associated liabilities. As at 31 December 2017 and during the reporting period BNYM SA/NV 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 providers could potentially damage BNYM SA/NV's operations, or if contracts with any of the third party providers are terminated, that BNYM SA/NV may not be able to find alternative providers on a timely basis or on equivalent terms.

BNYM SA/NV relies on internal and external outsourcing entities within and outside of the BNY Mellon group to perform its core business activities. To date, BNYM SA/NV has only outsourced critical tasks to BNY Mellon group entities that hold the required permissions in their jurisdiction to carry out the respective delegated tasks. Currently there are no critical tasks outsourced to third parties outside BNY Mellon entities.

BNYM SA/NV's outsourcing policy describes minimum standards that should be adopted when considering or dealing with a service and/or activity that is outsourced to another legal entity, either within the BNY Mellon group or to an external provider and establishes a framework for evaluating and analysing outsourcing projects.

Business Risk

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

The principal business risk for BNYM SA/NV is within the Asset Servicing and Alternative Investment Services businesses, mainly driven by the fact that fees are largely based on the client's net asset value. As business risk is difficult to assess, it has been defined as the residual risks that confront BNYM SA/NV after taking all known and quantifiable risks into consideration.

Regular monitoring of assets under custody, revenue and profitability is a key control used to mitigate the risk.

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 institution.

Traditionally analysed in relation to credit activities, concentration risk arises from exposures that may arise within or across different risk types, including intra-risk concentration where exposure concentration exists within a single risk type, and inter-risk 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).

BNYM SA/NV 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 BNYM SA/NV 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 whole Group, for example reputational contagion or Group default.

As part of a large complex and interconnected company, BNYM SA/NV has a number of dependencies on BNY Mellon. These range from business leadership, dependency on certain IT systems and support services provided by central functions.

BNYM SA/NV management has considered several possible scenarios where these services may be affected, these include IT services outage and other business continuity issues. Although these will cause operational issues they are not expected to have a significant cost impact and are therefore not modelled, but are included in the scenarios as part of operational risk assessment and in the liquidity stress testing.

Model Risk

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

Model risk can result in material financial loss, inaccurate financial or regulatory reporting, misaligned business strategies or damage to the reputation of BNYM SA/NV or BNY Mellon as a whole. BNYM SA/NV uses models in its risk management framework. All models have been assessed in line with the relevant corporate policies and model risk management framework wherein the individual model is categorised into one of three tiers based on materiality, complexity, and level of reliance. The tiers determine the controls applicable to the model classes. The Enterprise Model Risk Committee oversees model risk management at the enterprise level and approves the overall framework and standards, which are applicable across the organisation. The Model Risk Management Group, based in the US, retain ultimate responsibility for overall model governance.

Model Risk Management Governance has responsibility for the governance of inventory and provides a mechanism to report on models to key stakeholders.

Models that impact the capital assessment process are categorised as Tier 1 models and the execution of the validation of Tier 1 models is done by a designated independent model validation function. Tier 1 models are required to be validated or reviewed, as per the validation standards, at least annually.

BNY Mellon internal audit provides independent reviews of compliance with the corporate model validation policy.

Strategic Risk

Strategic risk is defined as the risk arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the financial industry and operating environment. Strategic and/or Business risks may also arise from the acceptance of new businesses, the introduction or modification of products, strategic finance and risk management decisions, business process changes, complex transactions, acquisitions/ divestitures/ joint ventures and major capital expenditures/ investments.

Country Risk

Country risk is the risk of adverse impact on operating profits and/or value of assets due to changes in the business environment resulting from political or macroeconomic factors. It can also be due to exposure to sovereign and economic debts in EMEA countries such as Italy, Russia, and the Eurozone.

Pension Obligation Risk

Pension obligation risk is caused by contractual liabilities or moral obligation to a company's staff pension schemes. Pension risk in BNYM SA/NV arises from the defined benefit pension plans offer to the employees. Defined benefit plans constitute a risk because BNYM SA/NV must compensate any shortfall in the fund's guaranteed pensionable amount. Only the Belgium and German plans result in a liability for BNYM SA/NV.

Appendix 2 Glossary of Terms

The following terms are used in this document:

Basel III: The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision (BCBS) in 2010

Belgium ALCO: Belgium Asset and Liability Committee

BNY Mellon: The Bank of New York Mellon

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

Central Bank of Ireland (CBI): Responsible for the regulation of all financial services firms in Ireland

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

ECB: European Central Bank

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

NBB: National Bank of Belgium

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: BNYM SA/NV'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 (RWAs): 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 model 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 Reference

CRR ref.	Requirement summary	Compliance ref.	Page ref.
Scope of disclosure requirements			
431 (1)	Institutions shall publish Pillar 3 disclosures	Pillar 3 disclosures published on company's internet site	N/A
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information	N/A	N/A
431 (3)	Institution shall adopt a formal policy to comply with the disclosure requirements	see 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)	see Pillar 3 policy	N/A
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	see 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 disclosure 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	see 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 Policies	21
435 (1) (a)	Strategies and processes to manage those risks	Section 4.1 Risk Objectives	21
435 (1) (b)	Structure and organisation of the risk management function	Section 4.2 Risk Governance	21
435 (1) (c)	Scope and nature of risk reporting and measurement systems	Section 4.1 - 4.8	21
435 (1) (d)	Policies for hedging and mitigating risk	Section 4.3 - 4.8	26
435 (1) (e)	Approved declaration on the adequacy of risk management arrangements	Section 4 Risk Management Objectives and Policies	21
435 (1) (f)	Approved risk statement describing the overall risk profile associated with business strategy	Section 4 Risk Management Objectives and Policies	21
435 (2) (a)	Number of directorships held by directors	Section 4.2.1 Board of Directors	22

435 (2) (b)	Recruitment policy of Board members, their experience and expertise	Section 4.2.1 Board of Directors	22
435 (2) (c)	Policy on diversity of Board membership and results against targets	Section 4.2.1 Board of Directors	22
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year	Section 4.2.2 - 4.2.4	24
435 (2) (e)	Description of information flow on risk to Board	Section 4.2.2 - 4.2.4	24
Scope of application			
436 (a)	The name of the institution to which the requirements of this Regulation apply	Section 1 Introduction	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 Introduction	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	15
437 (1) (a)	Full reconciliation of Common Equity Tier 1 (CET1) items	Table 2: Own funds, full reconciliation	15
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	16
437 (1) (c)	Full terms and conditions of all CET1, Additional Tier 1 and Tier 2 instruments	Table 3: Composition of regulatory capital	16
437 (1) (d) (i) 437 (1) (d) (ii) 437 (1) (d) (iii)	Each prudent filter applied Each deduction made Items not deduction	Table 2: Own funds, full reconciliation	15
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	BNYM 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	19
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	36

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	19 & 53
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	19 & 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	19
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	48
439 (b)	Discussion of process to secure collateral and establishing reserves	Section 8 Counterparty Credit Risk	48
439 (c)	Discussion of management of wrong-way exposures	Section 8 Counterparty Credit Risk	48
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	48
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Section 8 Counterparty Credit Risk	48
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	N/A - BNYM 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 - BNYM 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 5.6 Analysis of Past Due and Impaired Exposures	37
442 (b)	Approaches for calculating credit risk adjustments	Section 5.6 Analysis of Past Due and Impaired Exposures	37
442 (c)	Disclosure of pre-CRM EAD by exposure class	Section 5.5 Table 7: Standardised credit exposure by exposure class	36

442 (d)	Disclosures of pre-CRM EAD by geography and exposure class	Section 5.6 Table 8: Standardised credit exposure by country	36
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	37
442 (f)	Disclosures of pre-CRM EAD by residual maturity and exposure class	Section 5.6 Table 10: Standardised credit exposure by residual maturity	38
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 5.6 Table 11: Credit quality of exposures by counterparty type	38
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography	Section 5.6 Table 13: Credit quality of exposures by country	40
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 5.6 Analysis of Past Due and Impaired Exposures	37
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately	Section 5.6 Analysis of Past Due and Impaired Exposures	37
Unencumbered assets			
443	Disclosures on unencumbered assets	Section 9 Asset Encumbrance	51
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)	45
444 (b)	Exposure classes associated with each ECAI	Section 7 Table 17: Credit quality steps and risk weights	45
444 (c)	Explanation of the process for translating external ratings into credit quality steps	Section 7 Table 17: Credit quality steps and risk weights	45
444 (d)	Mapping of external rating to credit quality steps	Section 7 External Credit Assessment Institutions (ECAIs)	45
444 (e)	Exposure value pre and post-credit risk mitigation, by credit quality step	Section 7 Table 18-19: Credit Risk Mitigation (CRM) effects	46
Exposure to market risk			
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	Section 10 Market Risk	53
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 Other Risks: no non-trading book exposure in equities	74
447 (b)	Recorded and fair value, and actual prices of exchange traded equity where it differs from fair value	Appendix 1 Other Risks: no non-trading book exposure in equities	74
447 (c)	Types, nature and amounts of the relevant classes of equity exposures	Appendix 1 Other Risks: no non-trading book exposure in equities	74
447 (d)	Realised cumulative gains and losses on sales over the period	Appendix 1 Other Risks: no non-trading book exposure in equities	74

447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital	Appendix 1 Other Risks: no non-trading book exposure in equities	74
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: 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	53
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 28: Net interest income sensitivity by currency	56
Exposure to securitisation positions			
449	Exposure to securitisations positions	Appendix 1 Other Risks: no non-trading book exposure in equities	74
Remuneration disclosures			
450	Remuneration disclosure regarding remuneration policy and practices	Section 15 Remuneration Disclosure	70
450 (1) (a)	Information concerning the decision-making process used for determining the remuneration policy	Section 15.1 Governance	70
450 (1) (b)	Information on link between pay and performance	Section 15.2 Aligning Pay with Performance	70
450 (1) (c)	Important design characteristics of the remuneration system	Section 15 Remuneration Disclosure	70
450 (1) (d)	Ratios between fixed and variable remuneration	Section 15.5 Ratio between Fixed and Variable Pay	71
450 (1) (e)	Information on the performance criteria on which the entitlement to shares, options and variable components of remuneration is based	Section 15.6 Deferral Policy and Vesting Criteria	71
450 (1) (f)	Main parameters and rationale for any variable component scheme and any other non-cash benefits	Section 15.7 Variable Remuneration of Control Function Staff	72
450 (1) (g)	Aggregate quantitative information on remuneration by business area	Section 15.8 Table 34: Aggregate remuneration expenditure by business	72
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 15.8 Table 35: Aggregate remuneration expenditure by remuneration type	72
450 (1) (i)	Number of individuals being remunerated EUR 1 million or more per financial year	Section 15.8	72
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	N/A	N/A
Leverage			
451 (1) (a)	Leverage ratio	Section 13 Leverage Ratio	63

451 (1) (b)	Breakdown of total exposure measure	Section 13 Table 30: Leverage ratio common disclosure	64
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 Ratio	63
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	42
453 (b)	How collateral valuation is managed	Section 6.2 Collateral Valuation and Management	42
453 (c)	Description of types of collateral used	Section 6.3 Collateral Types	42
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 6.6 Credit Risk Concentration	43
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 6.6 Table 15: Credit risk mitigation techniques - overview	43
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	15
Article 3	Description of the main features of CET1, AT1 and Tier 2 instruments issued (Annex II and III)	Section 2 Table 5: Tier 2 instruments	18
Article 4	Disclosure of nature and amounts of specific items on own funds (Annex IV and V)	Section 2 Table 4: Transitional own funds	17
Article 5	Disclosure of nature and amounts of specific items on own funds during transitional period (Annex VI and VII)	Section 2 Table 4: Transitional own funds	17
Article 6	Entry into force from 31 March 2014	N/A	N/A

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