BNY MELLON

Annual Report

For the year
Ended December 31, 2018

THE BANK OF NEW YORK MELLON
SA/NV

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KEY FINANCIAL FIGURES & LETTER FROM THE CEO

This a summary of key figures extracted from the consolidated financial statements disclosed from page 43 onwards.

	2018 In € '000	2017 In € '000
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE		
Net interest income	105,268	111,417
Net fee and commission income	418,038	433,295
Profit before taxes from continuing operations	**(148,383)**	**173,272**
NET PROFIT FOR THE YEAR	**(196,474)**	**91,206**

	2018 In € '000	2017 In € '000
ASSETS		
Cash and cash balances with central banks	6,238,261	11,785,679
Derivative financial instruments	295,091	106,223
Loans and advances to customers	6,535,177	9,338,026
Investment securities	12,517,744	14,430,990
Other assets	244,831	548,659
Property, plant and equipment	7,228	5,823
Goodwill and other intangible assets	9,291	427,573
Tax assets	53,220	27,260
TOTAL ASSETS	**25,900,845**	**36,670,233**
LIABILITIES		
Derivatives financial instruments	304,085	125,936
Financial liabilities measured at amortized cost	22,298,108	32,961,281
Other liabilities	283,902	328,171
Provisions	15,140	4,990
Tax liabilities	27,130	43,234
TOTAL LIABILITIES	**22,928,364**	**33,463,612**
TOTAL EQUITY	**2,972,480**	**3,206,621**
TOTAL LIABILITIES AND EQUITY	**25,900,845**	**36,670,233**
CLIENT ASSETS		
Assets under custody (€ trillions)	2.4	3.6
TOTAL	**2.4**	**3.6**
PERSONNEL		
Number of employees (full time employee equivalent)		
In Belgium	*604*	*585*
Abroad	*858*	*879*
TOTAL	**1,462**	**1,464**

Letter from the CEO

2018 has been a transition year for The Bank of New York Mellon SA/NV (BNY Mellon SA/NV). During this year, in line with BNY Mellon's Group strategy, BNY Mellon affiliates started redirecting their global custody flows towards the BNY Mellon's US Banking entity's global sub-custody network and will only use the BNY Mellon SA/NV's network going forward for T2S markets. BNY Mellon SA/NV's balance sheet and income have decreased accordingly and historical goodwill recorded in its books have notably been impaired to reflect, amongst others, the impacts of that Group's strategy. The realignment among the different BNY Mellon banking entities will continue in 2019.

The main objective of the realignment is to make the group simpler for our customer to understand, for our regulators to regulate and resolve, and specifically to align customer's network provider to their contracting entity.

As a result, in 2018, BNY Mellon SA/NV has seen a decrease in its net fee and commission, and in its net interest incomes. A return on equity of 6.5% was achieved excluding an exceptional charge related to an impairment on the goodwill recorded within its Brussels headquarters, its Amsterdam, Dublin, Frankfurt and Milan branches and its subsidiary in Frankfurt. Excluding the exceptional charge, the net profit after taxes amounts to 207 million euros which represents a decrease of 12% compared to 2017.

Our net fee and commission income has decreased by 3.5% in 2018. This result is mainly due to lower Asset Servicing, Alternative Investment Services and Corporate Trust fees driven by client migrations to other banking entities of the BNY Mellon Group and a decrease in intercompany services fees as a result of above planned 2018 strategic initiatives. Our investment portfolio decreased by 13% at year-end in comparison with 2017 while our balance sheet decreased by 29% over the same period. However the active management of this Investment Portfolio, within the framework of our Investment Guidelines and Risk Appetite, and the review of the assets in the portfolio have led to a decrease of only 5.5% in net interest income in 2018. Our strategy, business model, and organizational design enable us to be responsive to environmental factors and forces driving change, which remain dominated at this time by regulatory, political and economic events and opportunities such as the United Kingdom's decision to leave the European Union.

We support clients and deliver Investment Services (Asset Servicing, Broker Dealer Services, Depository Receipts and Corporate Trust) and Markets (Foreign Exchange, Collateral and Segregation, Liquidity Services) products through our Branch and Subsidiary network in Belgium, Germany, The Netherlands, Ireland, Italy, France, Luxembourg, and the UK. Clients appreciate the financial strength of both BNY Mellon SA/NV and our parent, the BNY Mellon Group. The European business and footprint is a key component of the Group's business and strategy, and BNY Mellon SA/NV contribute to this strategy in Europe. We have undertaken, and continue to undertake, adjustments to the operations of BNY Mellon SA/NV so that we may provide a wider range of services to clients domiciled in the European Economic Area.

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

Leonique Van Houwelingen
Chief Executive Officer

Leonique v. Houwelingen
CEO

REPORT OF THE BOARD OF DIRECTORS[1]

[1] This report was established according to the article 119 of the Belgian Company Code.

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

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

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

History

30/9/2008	The Bank of New York Mellon SA/NV was established as a Belgian public limited liability company.
10/3/2009	Banking license granted.
1/10/2009	Merger with BNY Mellon Asset Servicing BV leading to the creation of branches in Amsterdam, London, Frankfurt and Luxembourg and a representation office in Copenhagen.
(1/10/2010	BNY Mellon acquired BHF Asset Servicing and FSKAG in Germany)
1/6/2011	Merger with BNY Mellon Asset Servicing Gmbh. FSKAG becomes fully an owned subsidiary.
1/12/2011	Creation of the Paris branch.
12/2012	Status of Assimilated Settlement Institution was granted.
1/02/2013	Merger with The Bank of New York Mellon (Ireland) Limited, creating the Dublin branch.
1/04/2017	Merger with The Bank of New York Mellon (Luxembourg) S.A. leading to the integration of the activities of The Bank of New York Mellon (Luxembourg) S.A into the existing Luxembourg branch and the creation of a branch in Milan.

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

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

The UK's decision to leave the EU ("Brexit") will impact BNY Mellon SA/NV going forward. Back in February 2016 BNY Mellon launched a Brexit Program sponsored by EMEA regional management. In order to ensure full preparedness for Brexit, the BNY Mellon Group and BNYM SA/NV have been planning for a Hard Brexit scenario and have continued continue to monitor negotiations between the UK and the EU carefully and are thoughtful as to whether the execution of the plans can or should be adjusted to reflect relevant developments. Based on its Operating Model, BNY Mellon remains favorably positioned to support its clients with stability and optionality through BNY Mellon SA/NV in the EU, BNY Mellon International Limited in the UK, as well as through branches of BNY Mellon's US Institutional Bank. BNY Mellon SA/NV's Brexit programme ties to the Group's programme.

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

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

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

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

1.1. Business Model

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

Around 88% of revenue is provided by non-interest fee income, providing a more annuity-like revenue stream that is less sensitive to stress scenarios. This results in a stable deposit base and revenue streams, even during periods of market stress. In addition, BNY Mellon SA/NV experiences a low level of non-performing assets as a majority of its clients are large corporations and financial institutions. Furthermore, the bank is currently not active in lending but only in operational loans performed in the context of contractual settlement. Those exposures are covered through a lien on the assets. Our balance sheet is characterized by highly liquid assets and a robust capital structure. Furthermore, the balance sheet is liability driven and managed in a way that ensures access to external funding sources at competitive rates if it would be required in a stress condition. Overall BNY Mellon SA/NV's business model is structured in a way that benefits from periods of global growth.

1.2. Services and Products

Asset Servicing
Asset Servicing primarily comprises Global and Local Custody services but also includes Depositary Services, Institutional Accounting, Fund Accounting, Transfer Agency services,

Capital Markets Trading Desk, Derivatives 360° - Middle Office and Derivatives Margin Management, Middle Office Operations Services and Depositary Receipts.
Global Custody is the main service provided by BNY Mellon SA/NV. It provides custodial services for clients including services selected and utilized by owners of securities (or their advisors) to assist in providing instruction capture, settlement, corporate actions and income and tax services related to their securities. Global Custody collects all revenues on behalf of its clients and alerts clients to take all required actions as owners.

As a result of the Brexit, it is intended that client contracts will be novated or repapered for the following Asset Servicing Products:

- Custody
- Depositary
- Fund Administration
- Transfer Agency

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

As of 31 December 2018, BNY Mellon SA/NV had €2.4 trillion in Assets under Custody.

Issuer Services

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

- ***Depositary Receipt Services***
  BNY Mellon 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.

Clearing, Markets and Client Management

- ***Foreign Exchange***
  BNYM SA/NV provides foreign exchange services that enable clients to achieve their investment, financing and cross-border objectives.

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

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

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

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

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

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

On the assumption of a Hard Brexit, BNY Mellon SA/NV will

- expand the following Markets product offering:
  - Foreign Exchange;
  - Liquidity Services;
  - Investment Advisory Services;

and

- will add the following Markets products:
  - Securities Finance
  - Collateral Management

2. External Factors Influencing BNY Mellon SA/NV

Interest rates remained at a low level in 2018. The European Central Bank (ECB) kept its negative interest rate unchanged while the Bank of England and Federal Reserve rates have been increased during 2018 but were still low compared to historical rates.

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

The value of the US dollar had increased steadily in 2018. Nevertheless, the currency risk of BNY Mellon SA/NV and its financial impact were limited.

"Brexit" is another key external factor that will influence BNY Mellon SA/NV. However, lots of uncertainties remain at this stage on exactly what will happen and when and we did not see any impact in 2018 yet.

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

3. Business Evolution in 2018

3.1. Main Events

BNY Mellon has continued to implement its three-bank model in 2018.

As a result, BNY Mellon SA/NV did successfully execute in July 2018 the 75% sale of client contracts of London Branch to other affiliates, resulting in the phased transfer of BNY Mellon SA/NV customers to BNY Mellon's London Branch. Most of the client migrations have been now executed and residual ones are expected to be transferred out in the course of 2019 year.

The BNY Mellon Brussels Branch operating model initiative has now been finalized resulting in the transfer of about 95% of BNY Mellon's Brussels Branch clients to other branches of BNY Mellon's US Institutional Bank and the remaining part to the BNY Mellon SANV.

The "Brexit" vote has had limited impact in 2018, with continued analysis by the lines of business on the impact on their products and review of their potential future offering in the EU through BNY Mellon SA/NV in preparation of the actual exit of the UK from the EU.

Finally, the completion of BNY Mellon UK Trust and Depositary initiative to transfer some BNY Mellon SA/NV clients into the Bank of New York Mellon International Limited ("BNYMIL") is now almost complete. BNYMIL is now positioned to be the contracting entity for all UK fund clients for trustee or depositary services.

3.2. Analysis of Financial Figures

The net loss after tax of BNY Mellon SA/NV amounted to -€196.5 million in 2018, down by 315% compared to the net income of €91.2 million in 2017, resulting in a negative -6.6% return on equity in 2018 (vs positive 2.8% in 2017). The reported loss is explained by the impairment of goodwill and intangibles of €403 million. Excluding this one-off adjustment, net fees and commissions income have decreased by -€15 million mainly due to lower Asset Servicing, Alternative Investment Services and Corporate Trust fees driven by client migrations resulting from planned 2018 strategic initiatives (Brussels Branch Operating Model and sale of client contracts of London Branch to other affiliates) and client exit.

The balance sheet has largely decreased at year end of 2018 at spot by -29.4%. On the assets side (at spot), a -€5.5 billion decrease is noted in Central Bank Placements and -€2.2 billion in Fixed Income Securities driven by client migrations in 2018 and maturity of securities, respectively.

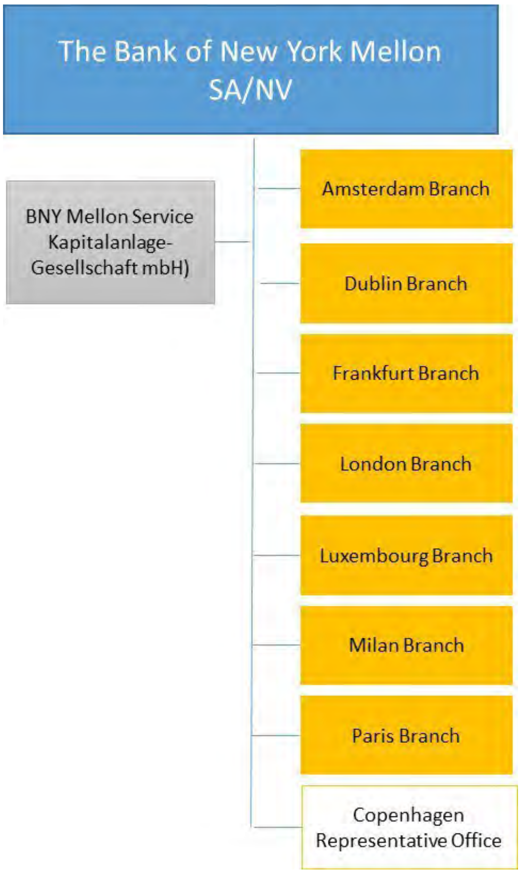
BNY Mellon SA/NV's interest margin is down by -€6.1 million (-5.5% decline vs 2017) driven mainly by the increase in USD interest rate.

The negative net results after tax has resulted in a negative return on assets of -0.76% in 2018 (vs positive 0.25% in 2017).

4. Structure and Corporate Governance

4.1. Structure of BNY Mellon SA/NV

As at 31 December 2018 BNY Mellon SA/NV has seven branches across Europe, a representative office in Copenhagen and a subsidiary based in Frankfurt[2]. The structure of BNY Mellon SA/NV is shown below.



Shareholding Structure and the agenda of the General Meetings
The shareholder structure of BNY Mellon SA/NV is given in the table below.

Shareholder Structure on 31 December 2018	*Number of ordinary shares*	*%*
The Bank of New York Mellon (BNY Mellon)	1,672,016	99.9999%
BNY International Financing Corporation (BNY IFC)	1	0.0001%
Total	1,672,017	100%

[2] Due to their nature and activities, the following two legal entities were not taken into account:
Stichting Administratiekantoor BNY Mellon Global Custody (The Netherlands)
BNY Mellon Global Custody B.V. (The Netherlands)
These two entities are not material due to the fact that their sole reason for existence is to hold securities not listed in the Netherlands for Dutch clients to ring fence them from own securities as a result of the then applicable Dutch securities laws. However, as older contracts with Dutch clients still make reference to these entities, they are still in place.

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

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

4.2. Composition and Activities of the Board and its Committees

The table below shows the members of the Board and its committees on 31 December 2018[3]:

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

[3] The Board recommended to the shareholders the appointment of Todd Gibbons and Dan Watkins as Non-Executive Directors of the Company, subject to regulatory approval. This approval hasn't been provided yet.

The Board recommended to the shareholders the appointment of Olivier Lefebvre as Chair of the Remuneration Committee and the Nomination Committee, subject to regulatory approval. This approval was received on 21 March 2019.

The Board recommended to the shareholders the appointment of Leonique van Houwelingen as Chair of the Executive committee and Chief Executive Officer, subject to regulatory approval. This approval was received on 21 March 2019.

Changes in the composition of the Board and the Committees in 2018

During the year 2018, the main changes to the composition of the Board and its Committees were:

-
- On 29 January 2018 James Wiener was appointed as member of the Board of Directors and he resigned from his mandate on 7 February 2018.
- As of 31 March 2018, Laura Ahto resigned as member of the Board of Directors, Chair of the Executive Committee and Chief Executive Officer.

Report on the activities of the Board

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

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

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

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

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

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

The Board may create advisory committees within the Board and under its responsibility in view of performing its responsibilities more efficiently. As at 31 December 2018, the Board had four advisory committees: the Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee. Those committees must be established by the Board in accordance with the requirements of the Belgian Banking Law.
The Audit Committee assists the Board in fulfilling its oversight responsibilities in respect of: (i) the integrity of the BNY Mellon SA/NV financial reporting process and financial statements; (ii) the efficiency of BNY Mellon SA/NV internal control and risk management systems, (iii) the performance of the BNY Mellon SA/NV internal audit function, and (iv) the statutory auditor’s qualifications, independence, provision of additional services and performance.

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

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

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

The Executive Committee (“ExCo”) of BNY Mellon SA/NV has been established by the Board of Directors in accordance with Article 24 of the Act of 25 April 2014 on the status and oversight of credit institutions and Article 524bis of the Belgian Companies Code. The ExCo has been entrusted with the general management of BNY Mellon SA/NV with the exception of (i) the determination of the strategy and general policy of BNY Mellon SA/NV and (ii) the powers reserved to the Board by Law or the Articles of Association. The ExCo is responsible for running the general management of BNY Mellon SA/NV within the strategy and the general policy defined by the Board and for ensuring that the culture across BNY Mellon SA/NV facilitates the performance of business activities with integrity, efficiency and effectiveness. The ExCo shall review corporate initiatives including strategic initiatives, financial performance, new business initiatives, policy changes, controls and organizational development. The ExCo has responsibility across all Lines of Business performed in or that impact BNY Mellon SA/NV and its branches and subsidiary.

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

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

4.3. External Functions Performed Outside of the Group

The following table provides an overview of the external functions performed outside of the BNY Mellon group by the directors (as at 31 December 2018):

BNY Mellon SA/NV Board member	Function at BNY Mellon SA/NV	Name of the other company in which an external function is exercised	Location (country)	Type of activities	Listed company (Y/N)	External mandate (title)	Capital connection with SA/NV (Y/N)
Olivier Lefebvre	Independent Chair of the Board of Directors, Independent Member of the Audit Committee, Independent Member of the Nomination Committee and Independent Member of the Remuneration Committee	Climact sa	Belgium	Environmental consultancy	N	Chairman of the Board	N
		Ginkgo Management sarl Ginkgo Management sarl II	Luxembourg	Real Estate Fund Management	N	Independent Director	N
Marie-Hélène Crétu	Independent Chair of the Audit Committee, Independent Member of the Remuneration Committee and Independent Member of the Risk Committee	CoDiese & GRC & PREF-X SAS	France	Finance consultancy	N	Director	N
		Montpensier Finance	France	Assets Management Company	N	Independent Director, Chair of the Audit Committee and of the Remuneration Committee	N
Carol Sergeant	Independent Chair of the Risk Committee, Independent Member of the Audit Committee and Independent Member of the Nomination Committee	Threadneedle Solutions Limited	United Kingdom	Private company	N	Director	N
		British Standards Strategy and Policy Committee	United Kingdom	Not for profit	N	Chairman	N
		Danske Bank A/S	Denmark	Financial Services	Y	Deputy Chairman	N
Peter Johnston	Non-executive Director, Member of the Audit Committee						
Hani Kablawi	Non-executive Director, Member of the Remuneration Committee	Arab Bankers Association London, UK	United Kingdom	Financial services	N	Board Member	N
Hedi Ben Mahmoud	Chief Risk Officer, Member of the Executive Committee						
Annik Bosschaerts	Chief Operations Officer, Member of the Executive Committee						
Eric Pulinx	Deputy Chief Executive Officer, Chief Financial Officer, Member of the Executive Committee	Febelfin - Banking Association	Belgium	Trade Association	N	Non-executive Director	N
		Delen Private Bank & Finax	Belgium	Credit Institution	N	Independent Director	N
Leonique van Houwelingen	Chief Executive Officer, Member of the Executive Committee	Dutch Foreign Bankers' Association (FBA)	The Netherlands	Trade Association	N	Board Member	N
		American Chamber of Commerce	Belgium	Trade Association	N	Board Member	N

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

4.4. Individual and Collective Competency/Skills

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

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

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

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

- the **Risk Committee** for the review of the Company's risks and system of internal controls;

- the **Nomination Committee** for the exercise of relevant and independent judgment on the composition and functioning of the Board and its Committees and the suitability of the committees' members; and

- the **Remuneration Committee** for the exercise relevant and independent judgment on the Company's remuneration policy and on the incentives.

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

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

5. Subsequent Event

The Brexit was finally not executed on March 29, 2019 because of political deadlock in the UK Parliament.

In preparation of the Brexit, BNY Mellon SA/NV has started to expand some of the existing market activities and to deliver new products and services.

The clients of BNY Mellon International Limited, Luxembourg Branch were transferred at book value from to the BNY Mellon SA/NV, Luxembourg Branch in the first quarter of 2019. As a result, the balance sheet of BNY Mellon SA/NV increased by € 3.1 billion.

6. Proposal of Allocation of Net Income

The net loss for the year amounts to € (196) million. Retained earnings as of the end of 2018 amount to € 1,198 million.

According to Belgian company law, the legal reserve of BNY Mellon SA/NV has to be funded until it reaches at least 10% of its capital, i.e. €172 million done through annual contributions of 5% of the net income of the year based on BEGAAP annual accounts. Given the loss incurred in 2018, the board of directors will propose to the shareholders to approve that no legal reserve shall be allocated for the 2018 financial year.

The Board proposes not to distribute any dividend in 2018.

Allocation of Loss	*In Mio €*
Loss of the current year	196
Allocation to the legal reserve	-
Dividend of the current year	-
Loss brought-forward	196

The Board has formally adopted a (non-)dividend policy by which all profits are systematically carried forward and recommended the same for approval to the shareholders' meeting. On 17 May 2011, the shareholders unanimously ratified this Board resolution. During 2018, the Board continued to apply the (non-)dividend distribution policy.

7. Contingent Liability

Claims – Legal actions

In 2013 a Swedish Arbitral Tribunal issued an award of over USD500m against the Republic of Kazakhstan ("RoK") in favour of Anatolie Stati, Gabriel Stati, Ascom Group S.A. and Terra Raf Trans Traiding Ltd (together the "Stati Parties"). This award has been upheld by the Swedish Supreme Court. The Stati Parties have sought to legally enforce this award in numerous jurisdictions against RoK's assets held by any party. In October 2017 BNYM SA/NV London Branch ("SA/NV") was served with a conservatory garnishment order in Belgium, ordering SA/NV to freeze certain assets belonging to RoK and its National Fund. Accordingly, and in compliance with SA/NV's legal obligations, SA/NV froze assets held by its client, the National Bank of Kazakhstan ("NBK"), for the National Fund. On 25 May 2018 the amount of the Belgian freeze was reduced, but remains in place pending the outcome of further legal proceedings in England regarding the nature of the relationship among RoK, NBK and SA/NV and the accuracy of SA/NV's prior statements as the garnishee in the Belgian proceedings. Previously, the English High Court and Court of Appeal dismissed NBK/RoK's lawsuit against SA/NV where court rulings were sought stating that SA/NV were not contractually entitled to freeze the assets in question. The outcome of these matters is highly uncertain and as a result it is not currently practicable to estimate any impact.

German authorities are conducting investigations of past "cum/ex" trading. Historically, such trading involved the purchase of equity securities on or shortly before the dividend date but settled after that date, creating a risk that a party could obtain a potentially unwarranted refund of withholding tax. German tax law was later amended to prevent parties from obtaining potentially unwarranted refunds through cum/ex trading. In some instances, the authorities have taken the view that past cum/ex trading may have resulted in tax avoidance or evasion, and have demanded repayment of certain tax refunds. The Bank of New York Mellon SA/NV ("BNYM SA/NV") and its subsidiary BNY Mellon Service Kapitalanlage-Gesellschaft mbH ("BNYM KAG"), have been informed by German authorities that the authorities are investigating potential cum/ex trading by certain third-party investment funds, where BNYM SA/NV had acquired entities in 2010 (the "Acquired Entities") that served as depositary and/or fund manager for those third-party investment funds. BNYM SA/NV has received preliminary information requests from the authorities relating to activity prior to the 2010 acquisitions that could trigger potential tax liabilities. BNYM SA/NV is cooperating fully with those requests. Neither BNYM SA/NV nor BNYM KAG has received any tax demand concerning cum/ex trading. The agreement under which BNYM SA/NV acquired the Acquired Entities includes an indemnity for tax liabilities from the sellers that we intend to pursue as necessary. The outcome of these matters is highly uncertain and as a result it is not currently practicable to estimate any impact.

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

8. Research & Development

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

9. Risk Management

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

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

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

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

10. Additional Information regarding BNY Mellon SA/NV

Non-Financial Information

The BNY Mellon Group has a strong policies framework in relation to social, environmental, human rights and anti-corruption matters. Corporate Social Responsibility supports BNY Mellon's vision to improve lives through investing. BNY Mellon's initiatives flow across the entire group, including BNY Mellon SA/NV, to reinforce its trusted brand, allow clients to work with a group whose values match their own, enable employees to feel good about where they work and improve lives in communities around the world. BNY Mellon publishes annually a Corporate Social Responsibility Report (the "CSR Report"), according to the GRI (Global Reporting Initiative) Standards, in which the group describes its vision, strategy and results with respect to Corporate Social Responsibility.

At BNY Mellon, Corporate Social Responsibility embodies the group's commitment to address global challenges and opportunities and create an inclusive, sustainable world where people succeed and economies thrive. The BNY Mellon's strategy in Corporate Social Responsibility is built on three pillars: "Our Markets", "Our World" and "Our People". These pillars reflect the many ways BNY Mellon improves lives through investing. The work in "Our Markets" supports BNY Mellon's vital role in the global economy. BNY Mellon is dedicated to "Our People", who are the core of its business. "Our World" is about contributing solutions to the biggest challenges the society is facing. These pillars help BNY Mellon focus its Corporate Social Responsibility efforts where it can have the greatest impact. BNY Mellon has set 2020 Corporate Social Responsibility goals to operationalize its Corporate Social Responsibility strategy and drive increased value for the group, including BNY Mellon SA/NV, and society. These goals include initiatives in Risk Management and Reliability, and Strong Governance for the "Our Markets" pillar; initiatives in Leadership and Development, Engagement and Wellbeing and Diversity and Inclusion in the "Our People" pillar; and initiatives in Social Investing, Community Commitment and Environmental Management in the "Our World" pillar.

BNY Mellon's polices framework, Corporate Social Responsibility strategy and Corporate Social Responsibility goals are fully applicable to BNY Mellon SA/NV and its personnel. Detailed information, including the Corporate Social Responsibility Report 2018 is appended to this report.

We draw attention to the fact that the content of the Corporate Social Responsibility Report does not entirely disclose information on the results of the policies in place, the main risks associated with the issues and the non-financial key performance indicators for the specific activities in relation to social and personal issues, environmental issues and respect for human rights and the fight against corruption as required by article 119, §2 (or 96, §4 for the annual report) of the Belgian Company Code. The company will assess what best actions will need to be taken in the future to ensure we meet the requirements set forth by this article.

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

Corporate Headquarters
BNY Mellon
240 Greenwich Street
New York, NY 10286

United States

Statutory Auditors
KPMG - Réviseurs d’Entreprises CVBA/SCRL, B00001
Avenue du Bourget 40, 1130 Brussels, Belgium
Represented by: Kenneth Vermeire (A02157)

BOARD STATEMENT

The Board of Directors has the responsibility of establishing the annual accounts and consolidated financial statements of The Bank of New York Mellon SA/NV (BNY Mellon SA/NV) as of and for the year ended December 31, 2018 pursuant to Belgian law.

On 25 April 2019, the annual accounts and consolidated financial statements of BNY Mellon SA/NV were discussed at the Board of Directors.

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

The annual accounts and consolidated financial statements as of December 31, 2018 will be submitted for approval to the ordinary shareholders meeting to be held on 28 May 2019.

In 2018, there has been no decision taken by the Board, or the Executive Committee, which requires the respective application of Art. 523 and Art. 524ter of the Belgian Companies Code on conflicts of interest.

Brussels, 25 April 2019

For the Board of Directors

Olivier Lefebvre
Chairman

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

KPMG

Rapport du commissaire à l'assemblée générale de la société The Bank of New York Mellon SA sur les comptes consolidés pour l'exercice clos le 31 décembre 2018

Dans le cadre du contrôle légal des comptes consolidés de The Bank of New York Mellon SA (la «Société») et de ses filiales (conjointement « le Groupe »), nous vous présentons notre rapport du commissaire. Celui-ci inclut notre rapport sur les comptes consolidés pour l'exercice clos le 31 décembre 2018, ainsi que les autres obligations légales et réglementaires. Le tout constitue un ensemble et est inséparable.

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

Rapport sur les comptes consolidés

Opinion sans réserve

Nous avons procédé au contrôle légal des comptes consolidés du Groupe pour l'exercice clos le 31 décembre 2018, établis conformément aux normes internationales d'information financière (IFRS) telles qu'adoptées par l'Union Européenne et aux dispositions légales et réglementaires applicables en Belgique. Ces comptes consolidés comprennent le bilan consolidé au 31 décembre 2018, ainsi que l'état consolidé du résultat global et autres éléments du résultat global, le tableau de passage des capitaux propres et un tableau consolidé des flux de trésorerie de l'exercice clos à cette date, ainsi que des annexes contenant un résumé des principales méthodes comptables et d'autres informations explicatives. Le total du bilan consolidé s'élève à 25.900.845 (000) EUR et l'état consolidé du résultat global et autres éléments du résultat global se solde par une perte de l'exercice de 196.474 (000) EUR et par une perte globale de la période de 234.132 (000) EUR.

À notre avis, ces comptes consolidés donnent une image fidèle du patrimoine et de la situation financière du Groupe au 31 décembre 2018, ainsi que de ses résultats consolidés et de ses flux de trésorerie consolidés pour l'exercice clos à cette date, conformément aux normes internationales d'information financière (IFRS) telles qu'adoptées par l'Union Européenne et aux dispositions légales et réglementaires applicables en Belgique.

Siège social:
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1930 Zaventem
Belgique

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TVA BE 0419.122.548
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IBAN : BE 62 4377 5152 9261
BIC : KREDBEBB

Fondement de l'opinion sans réserve

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

Nous avons obtenu de l'organe de gestion et des préposés de la Société, les explications et informations requises pour notre audit.

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

Points clés de l'audit

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

<u>Systèmes informatiques et contrôles automatisés à l'égard de l'information financière</u>

Description

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

Nos procédures d'audit

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

— Evaluation du cadre de gouvernance du Groupe en matière de gestion des systèmes informatiques.

— Evaluation de la conception et de l'efficacité opérationnelle des contrôles généraux sur les systèmes informatiques tels que les contrôles relatifs aux développements et changements, aux accès aux programmes et aux données, et aux opérations informatiques.

— Evaluation de la conception et de l'efficacité opérationnelle des contrôles automatisés des processus clés ayant un impact sur l'information financière produite par le Groupe, en prenant en considération les contrôles compensatoires qui ne sont pas impactés par des contrôles généraux et les procédures substantives additionnelles considérées comme nécessaires.

— Evaluation de l'intégrité des données transmises au travers des différents systèmes informatiques vers les systèmes concourant à la production de l'information financière.

<u>Évaluation du goodwill</u>

Nous référons à la rubrique "Goodwill et autres actifs incorporels" du bilan consolidé ainsi qu'à l'annexe n°17 "Goodwill et autres actifs incorporels" des comptes consolidés.

Description

Au 31 décembre 2017, le bilan consolidé du Groupe incluait un goodwill s'élevant à 400.923 (000) EUR, et concernant une seule unité génératrice de trésorerie ('UGT'). Dans le courant de 2018, une réduction de valeur a été comptabilisée sur l'entièreté du goodwill.

Le goodwill est soumis à un test de dépréciation annuel conformément à IAS 36 *« Dépréciation d'actifs »*. Les préposés de la Société ont recours à l'approche de la valeur d'utilité pour déterminer si les actifs à la date de clôture ont subi une perte de valeur ainsi que le montant de réduction de valeur à reconnaître. Cet exercice inclut un niveau important de subjectivité et de complexité, particulièrement lors de la détermination des hypothèses clés et lors de la préparation du plan financier. Ces éléments sont sensibles pour les estimations de flux de trésorerie ainsi que pour la valeur terminale utilisés dans le cadre du calcul de la valeur d'utilité.

Nous avons déterminé que l'évaluation du goodwill était un point clé de l'audit en raison du niveau de jugement requis par les préposés de la Société lors de son évaluation de la perte de valeur ainsi que de l'importance de la perte de valeur résultant du plan financier révisé sur le bénéfice net de l'exercice.

Nos procédures d'audit

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

— Nous avons analysé l'évaluation des préposés de la Société selon laquelle les opérations du Groupe se situent dans une seule UGT.

— Nous avons évalué la procédure d'élaboration du plan financier par l'organe de gestion.

— Nous avons vérifié que le plan financier avait été approuvé par l'organe de gestion. Nous avons également analysé la nature des éventuelles corrections apportées au précédent plan financier et plus particulièrement, celles liées aux estimations de flux de trésorerie.

— Nous avons évalué la capacité historique des préposés de la Société à prévoir les flux de trésorerie et apprécié le caractère raisonnable des prévisions actuelles en comparant les hypothèses clés (en particulier le taux d'actualisation, le taux de croissance attendu et le taux d'inflation) aux données historiques, aux prévisions du secteur ainsi qu'à des données de planification internes. Nous avons également corroboré les hypothèses clés basées sur des données de marché avec des données externes.

— Nous avons évalué les hypothèses utilisées dans le calcul de la valeur terminale (en particulier le taux de croissance à long terme).

— Nous avons effectué des analyses de sensibilité, principalement axées sur le taux d'actualisation et le taux de croissance à long terme.

— Nous avons testé l'exactitude mathématique du modèle de flux de trésorerie.

— Nous avons apprécié l'évaluation des préposés de la Société selon laquelle (a) l'excédent de capital en pilier 2 peut être considéré comme excédent de trésorerie susceptible d'être immédiatement distribuable aux actionnaires, et (b) la dette subordonnée peut être considérée comme capital perpétuel de niveau 2.

— Nous avons évalué si les éventuels événements subséquents à la date de clôture pouvaient avoir un impact sur le test de dépréciation et sur l'évaluation de la valeur d'utilité au sein d'une seule UGT.

— Nous avons évalué le caractère approprié de l'information relative au test de dépréciation du goodwill présentée à l'annexe n°17 des comptes consolidés.

<u>Actifs détenus par le dépositaire</u>

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

Description

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

Nos procédures d'audit

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

- Nous avons évalué l'implémentation et testé l'efficacité opérationnelle des contrôles manuels et automatisés relatifs au processus de rapportage des actifs détenus par le dépositaire, en ce compris les contrôles devant assurer la qualité des données sources, l'exhaustivité des actifs détenus par le dépositaire ainsi que leur évaluation.
- Nous avons sélectionné un échantillon de contrats et avons corroboré les conclusions des préposés du Groupe à propos du respect des exigences liées à la protection des actifs détenus par le dépositaire et au rapportage.
- Nous avons sélectionné un échantillon de contrats et avons testé l'allocation des contrats aux entités juridiques du groupe The Bank of New York Mellon Corp. en comparant les données du système opérationnel avec les confirmations reçues des entités en question.
- Nous avons évalué le processus de réconciliation entre les actifs détenus par le dépositaire extraits des systèmes opérationnels du Groupe et les actifs détenus par le dépositaire tels que repris dans l'annexe "Hors bilan" des comptes consolidés et avons évalué la pertinence des éventuels éléments non repris dans l'annexe.

Responsabilités de l'organe de gestion relatives à l'établissement des comptes consolidés

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

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

Responsabilités du commissaire relatives à l'audit des comptes consolidés

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

Lors de l'exécution de notre contrôle, nous respectons le cadre légal, réglementaire et normatif qui s'applique à l'audit des comptes consolidés en Belgique.

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

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

situations ou événements futurs pourraient conduire le Groupe à cesser son exploitation;

— nous apprécions la présentation d'ensemble, la structure et le contenu des comptes consolidés et évaluons si les comptes consolidés reflètent les opérations et événements sous-jacents d'une manière telle qu'ils en donnent une image fidèle;

— nous recueillons des éléments probants suffisants et appropriés concernant les informations financières des entités ou activités du Groupe pour exprimer une opinion sur les comptes consolidés. Nous sommes responsables de la direction, de la supervision et de la réalisation de l'audit au niveau du Groupe. Nous assumons l'entière responsabilité de l'opinion d'audit.

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

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

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

Autres obligations légales et réglementaires

Responsabilités de l'organe de gestion

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

Responsabilités du commissaire

Dans le cadre de notre mandat et conformément à la norme belge complémentaire (révisée en 2018) aux normes internationales d'audit (ISA) applicables en Belgique, notre responsabilité est de vérifier, dans leurs aspects significatifs, le rapport de gestion sur les comptes consolidés et les autres informations contenues dans le rapport annuel, ainsi que de faire rapport sur ces éléments.

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

A l'issue des vérifications spécifiques sur le rapport de gestion sur les comptes consolidés, nous sommes d'avis que celui-ci concorde avec les comptes consolidés pour le même exercice et a été établi conformément à l'article 119 du Code des sociétés.

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

— Chiffres clés et lettre du CEO

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

Mentions relatives à l'indépendance

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

— Les honoraires relatifs aux missions complémentaires compatibles avec le contrôle légal visées à l'article 134 du Code des sociétés ont correctement été valorisés et ventilés dans les annexes des comptes consolidés.

Autres mentions

— Nous faisons référence au rapport de gestion sur les comptes consolidés qui énonce le point de vue de l'organe de gestion selon lequel le Groupe est exempté de l'obligation de préparer et de publier l'information non-financière tel que requise par l'article 119, §2 du Code des sociétés étant donné que la Société est une filiale du groupe The Bank of New York Mellon Corp, qui prépare un rapport annuel consolidé qui inclut l'information non-financière. L'organe de gestion indique néanmoins que le contenu du rapport annuel consolidé n'inclut pas toutes les informations requises par l'article 119, §2 du Code des sociétés.

— Le présent rapport est conforme au contenu de notre rapport complémentaire destiné au comité d'audit visé à l'article 11 du règlement (UE) n° 537/2014.

Zaventem, le 28 mai 2019

KPMG Réviseurs d'Entreprises
Commissaire
représentée par

Kenneth Vermeire
Réviseur d'Entreprises

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2018 In € '000	2017 In € '000
Interest income	2	313,270	252,451
Interest expense	2	208,003	141,034
Net interest income		105,268	111,417
Fee and commission income	3	757,495	792,460
Fee and commission expense	3	339,457	359,165
Net fee and commission income		418,038	433,295
Gains /(losses) on non-qualifying economic hedges	4	36,797	58,237
Gains on derecognition of assets other than held of sale, net	5	25,046	-
Other operating income	5	727	977
Total operating income		**585,876**	**603,926**
Personnel expenses	6	156,140	150,611
Depreciation of Property and Equipment	16	2,574	2,441
Amortization/impairment of Intangible assets (other than goodwill)	17	11,582	6,534
Goodwill impairment	17	395,919	141,000
Impairment of financial assets not measured at fair value through profit and loss		(585)	—
Provisions	20	16,841	1,150
Other operating expenses	7	151,787	128,918
Total operating expenses		**734,259**	**430,654**
Profit before tax from continuing operations[4]		**(148,383)**	**173,272**
Tax expense (income) related to profit or (loss) from continuing operations	8	48,091	82,066
NET PROFIT (LOSS) FOR THE YEAR[5]		**(196,474)**	**91,206**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement gains /(losses) on defined benefit plans	22.2	(626)	11,885
Related tax	8.2	(35)	(4,781)
		(661)	**7,104**
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (FVOCI debt instruments for 2018)/ (Available -for-sale for 2017)			
Net change in fair value		(48,173)	(70,477)
Net amount transferred to profit and loss		2,745	(430)
Related tax	8.2	8,432	13,750
		(36,997)	**(57,157)**
Other comprehensive income for the year, net of tax		(234,132)	(50,053)
Total comprehensive income (loss) for the year, net of tax[6]		**(234,132)**	**41,153**

[4] BNY Mellon SA/NV has no discontinued operations; accordingly, no profit or loss allocated to discontinued operations has been presented on the face of the consolidated statement of profit and loss and other comprehensive income.
[5] All net profit/loss is attributable to the equity holders of the parent.
[6] The amounts for the period ended 31 December 2018 are prepared in accordance with IFRS 9. Prior period amounts have not been restated in accordance with IFRS 9.
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2018 In € '000	31 December 2017 In € '000
ASSETS			
Cash and cash balances with central banks	10	6,238,261	11,785,679
Derivative financial instruments	14	295,091	106,223
Loans and advances to customers	11	6,535,177	9,338,026
Investment securities	12	12,517,744	14,430,990
Current tax assets	8	45,431	26,382
Other assets	15	244,831	548,659
Property and equipment	16	7,228	5,823
Deferred tax assets	8	7,789	878
Goodwill and other intangible assets	17	9,291	427,573
TOTAL ASSETS		**25,900,845**	**36,670,233**
LIABILITIES			
Derivative financial instruments	14	304,085	125,936
Deposits from central banks	18	585,458	860,068
Deposits from financial institutions	18	21,307,964	31,732,401
Deposits from non-financial institutions	18	45,931	10,078
Subordinated liabilities	18	358,755	358,734
Current tax liabilities	8	25,545	28,456
Other liabilities	19	283,902	328,171
Provisions	20	15,140	4,990
Deferred tax liabilities	8	1,585	14,778
TOTAL LIABILITIES		**22,928,364**	**33,463,612**
EQUITY			
Issued capital	23	1,723,486	1,723,486
Share premium	23	33,333	33,333
Retained earnings		1,196,043	1,394,123
Other reserves		19,619	55,679
TOTAL EQUITY		**2,972,480**	**3,206,621**
TOTAL LIABILITIES AND EQUITY		**25,900,845**	**36,670,233**

All equity is attributable to the equity holders of the parent

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

The amounts for the period ended 31 December 2018 are prepared in accordance with IFRS 9. Prior period amounts have not been restated in accordance with IFRS 9.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of BNY Mellon SA/NV				
	Issued capital	Share premium	Retained earnings	Other reserves	Total equity
	In '000 €	In '000 €	In '000 €	In '000 €	In '000 €
As at January 1, 2017	**1,508,654**	**33,333**	**1,287,455**	**102,802**	**2,932,244**
Profit/loss for the year	—	—	91,207	—	91,207
Other comprehensive income, net of tax					
Remeasurement gains/(losses) on defined benefit plans	—	—	—	11,885	11,885
Fair value reserve (available-for-sale financial assets)					
Net change in fair value	—	—	—	(70,477)	(70,477)
Net amount transferred to profit and loss	—	—	—	(430)	(430)
Tax on other comprehensive income	—	—	—	8,968	8,968
Total other comprehensive income	**—**	**—**	**—**	**(50,054)**	**(50,054)**
Total comprehensive income	**—**	**—**	**91,207**	**(50,054)**	**41,153**
Share-based payments (Note 25)	—	—	—	2,931	2,931
Transactions with owners[7]	214,831	—	15,462	—	230,293
At 31 December 2017	**1,723,485**	**33,333**	**1,394,124**	**55,679**	**3,206,621**
Adjustment on initial application of IFRS 9, net of tax	—	—	(1,608)	—	(1,608)
Restated balance at 1 January 2018	**1,723,485**	**33,333**	**1,392,516**	**55,679**	**3,205,013**
Total comprehensive income					
Profit/loss for the year	—	—	(196,474)	—	(196,474)
Other comprehensive income, net of tax			—	—	—
Remeasurement gains /(losses) on defined benefit plans	—	—	—	(626)	(626)
Fair value reserve (FVOCI debt instruments)	—	—	—	—	—
Net change in fair value	—	—	—	(48,173)	(48,173)
Net amount transferred to profit and loss	—	—	—	2,745	2,745
Tax on other comprehensive income	—	—	—	8,396	8,396
Total other comprehensive income	—	—	—	(37,658)	(37,658)
Total comprehensive income	—	—	(196,474)	(37,658)	(234,132)
Share-based payments (Note 25)				1,599	1,599
Transactions with owners	**0**	**—**	**0**	**1,599**	**1,599**
At 31 December 2018	**1,723,485**	**33,333**	**1,196,043**	**19,619**	**2,972,480**

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

[7] Transactions with owners in 2017 include the additional capital from the business combination with Luxembourg entities that occurred in April 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2018	2017
		In € '000	In € '000
OPERATING ACTIVITIES			
Net Profit (Loss) for the year		(196,474)	91,207
Adjustments for:		284,838	268,869
Net interest income	2	(105,268)	(111,418)
Current and deferred tax expenses	8	48,091	82,066
Depreciation and amortization	16, 17	7,025	8,975
Goodwill impairment	16, 17	395,919	141,000
Intangibles impairment	16, 17	7,131	—
Provisions		16,841	1,150
Issued capital and UNA merger		—	229,240
Gains from derecognition of assets other than held for sale		(25,046)	—
Other[8]		(59,856)	(82,145)
Changes in:			
Monetary reserves		(76,854)	81,894
Loans and advances		(2,802,849)	(1,030,397)
Investment securities		191,592	(973,312)
Derivative financial assets		188,868	(112,492)
Other assets		(303,828)	221,270
Advances from central banks		(274,610)	582,154
Deposits from credit institutions		(10,424,416)	(613,718)
Deposits (other than credit institutions)		35,853	4,048
Derivatives financial liabilities		178,149	(135,492)
Other financial liabilities		—	—
Other liabilities		(44,269)	139,287
Interest received		313,270	252,451
Interest paid		(208,003)	(141,034)
Income taxes refunded (paid)		(71,584)	(70,680)
Net cash used in operating activities		**(7,604,176)**	**808,417**
INVESTING ACTIVITIES			
Purchase of tangible assets		(3,683)	(510)
Disposal of intangible and tangible assets		—	102
Purchase of intangible assets		(540)	(14)
Proceeds from sales of debt securities		5,413,298	3,658,023
Purchase of debt securities		(3,311,855)	(5,039,734)
Proceeds from derecognition of assets other than held for sale		36,391	—
Net cash used in investing activities		**2,133,611**	**3,657,601**

[8] Other mainly includes non-cash transactions

	Note		
FINANCING ACTIVITIES			
Other cash proceeds related to financing activities		—	—
Net cash used in financing activities		—	—
Net increase/decrease in cash and cash equivalents		**(5,470,564)**	**807,996**
Cash and cash equivalents at beginning of the period		11,457,125	10,649,129
Effect of exchange rate fluctuations on cash and cash equivalents[9]		—	—
Cash and cash equivalents at the end of the period	**10**	**5,986,561**	**11,457,125**
Components of cash and cash equivalents:			
Cash and cash balances with central banks[10]		5,986,561	11,457,125

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

[9] Cash and Cash balances with central banks are mainly invested in Euro.

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

SIGNIFICANT ACCOUNTING POLICIES

1. Significant Accounting Policies

1.1. Basis of Accounting

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

The consolidated financial statements of The Bank of New York Mellon SA/NV, its branches and subsidiaries (hereinafter “BNY Mellon SA/NV”) have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS). This is the first set of annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in note 1.4.

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

1.2. Basis of Consolidation

The consolidated financial statements comprise the financial statements of BNY Mellon SA/NV and its subsidiaries as at and for the year ended 31 December 2018. The individual financial statements of BNY Mellon SA/NV’s subsidiaries are prepared for the same reporting year as BNY Mellon SA/NV. The accounting policies of subsidiaries are consistent with those of the parent.

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

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

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

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

1.3. Use of Judgments and Estimates

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

Estimates and assumptions

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

Applicable to 2017 and 2018:

Going concern

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

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

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

Goodwill

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

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

Retirement benefit plan

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

Applicable to 2018 only:

IFRS 9 Financial instruments

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

1.4. Changes in Accounting Policies

The following new and amended IFRS and IFRIC interpretations were considered by BNY Mellon SA/NV, these being endorsed by European Union and effective for annual periods beginning on or after 1 January 2018.

IFRS 9 Financial Instruments

The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to BNY Mellon SA/NV's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification and Measurement of financial assets and financial liabilities

IFRS 9 contains a revised classification and measurement approach that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classifications categories for financial assets: measured at amortised cost, fair value through Other Comprehensive Income (FVOCI) and measured at fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. For an explanation of how BNY Mellon SA/NV classifies financial assets and financial liabilities under IFRS 9, see Note 1.6.3.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This new impairment model also applies to certain loan commitments and financial guarantee contracts, but not to equity instruments.

The IFRS 9 impairment model applies to debt instruments and financial guarantee contracts issued that are not measured at FVTPL. ECLs on instruments classified at FVOCI are recognized in OCI rather than reducing the value of the instrument. For an explanation of how BNY Mellon SA/NV determines the expected credit loss under IFRS 9, see Note 1.6.8.

Transition

Changes in accounting arising from the adoption of IFRS 9 were applied retrospectively; except as described below.

- Comparative periods have not been restated. Differences in the carrying amount of financial instruments resulting from the adoption of IFRS 9 were recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Effect of applying IFRS 9

Changes to classification and measurement of financial assets held at 31 December 2018 were:

- derivatives held for trading and measured at FVTPL under IAS 39 continue to be classified and measured so under IFRS 9;
- loans and advances to banks and customers that were classified as loans and receivables and measured at amortised cost under IAS 39 continue to be classified and measured at amortised cost under IFRS 9;
- debt securities that were classified as held-to-maturity and measured at amortised cost under IAS 39 will be classified and measured at amortised cost under IFRS 9;

- debt securities that were classified as available-for-sale and measured at FVOCI under IAS 39 will be classified and measured at FVOCI under IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

BNY Mellon SA/NV initially applied IFRS 15 on 1 January 2018. Introduction of this model had no impact on the accounting for revenue or on retained earnings of BNY Mellon SA/NV. The impact of IFRS 15 was limited to certain additional disclosure requirements (see Note 3).

Except for the above, the accounting policies adopted are consistent with those of the previous financial year.

1.5. Forthcoming Changes in IFRS

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

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset, and a lease liability representing its obligation to make lease payments. IFRS 16 will replace existing guidance including IAS 17 *Leases*. The standard is effective for accounting periods beginning on or after 1 January 2019.

BNY Mellon SA/NV will apply IFRS 16 using the modified retrospective approach, hence will perform a cumulative event catch up as of the beginning of the implementation period (1 January 2019). BNY Mellon SA/NV will elect to utilize the package of practical expedients at implementation and hence will not reassess: i) whether expired or existing contracts contain leases under the new definition of a lease, ii) the lease classification for expired or existing leases and iii) whether previously capitalized initial direct costs would still qualify for capitalization. Other practical expedients and exemptions may be applied as well, such as: i) no separation of lease and non lease components, ii) use of a portfolio approach when practical, iii) continue to exclude executory costs (i.e. property taxes, insurance and maintenance).

As a result of IFRS 16 implementation, BNY Mellon SA/NV estimates that it will recognise an increase in ROU assets and lease liabilities of approximately €43.3 Mio, respectively. Additionally, we expect the expense recognition pattern to be modified with a depreciation charge on the ROU asset and interest expense on lease liabilities, hence switching from a straight line approach, as required by the standard.

Other Standards

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

- *Annual Improvements to IFRS Standards 2015-2017 Cycle - various standards*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*

- *IFRIC 23 Uncertainty over Income Tax Treatments*
- *Amendments to References to Conceptual Framework in IFRS Standards*
- *IFRS 17 Insurance Contracts*

1.6. Summary of Accounting Policies and Disclosures

1.6.1. Foreign Currency Translation

The consolidated financial statements are presented in Euro (€). Items included in the financial statements of each of BNY Mellon SA/NV's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"), which is Euro for all BNY Mellon SA/NV's entities.

1.6.1.1. Translations of transactions and balances

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

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

1.6.2. Recognition of Revenue and Expense

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

1.6.2.1. Net Income Interest

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

Due to the low interest environment, the interests on some deposits at the European Central Bank or other central banks has become negative since 2014, as well as certain government securities were issued with a negative yield. BNY Mellon SA/NV has recognized the negative interest on financial assets as interest expense and reported it as part of "Interest expense" line in the consolidated statement of profit and loss and other comprehensive income. Conversely, negative interest charged to clients on financial liabilities has been recognized and reported as "Interest Income".

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

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

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

1.6.2.2. Fees and Commission Income

Contract revenue (i.e. scope of IFRS 15 standard) is reported in the fee and commission line. BNY Mellon SA/NV earns fee and commission income mainly from the provision of: i) Asset Servicing products such as Global Custody, Depository Bank Services or Fund Accounting services, ii) Issuer servicing products such as Depository Receipts and Corporate Trust, and iii) Markets, of which mainly Foreign exchange commission fees. Revenue is based on terms specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Revenue is recognized when, or as, a performance obligation is satisfied by transferring control of a good or service to a customer.

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

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

Nature of services and revenue recognition

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

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

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

1.6.2.3. Dividend Income

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

1.6.2.4. Gains and Losses on Non Qualifying Economic Hedges

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

1.6.3. Financial Instruments – Initial Recognition and Subsequent Measurement

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

1.6.3.1. Non-derivative financial assets - Policy applicable from 1 January 2018

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

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

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

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

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

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

1.6.3.1.1 Business model assessment

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

- the stated policies and objectives for the portfolio;
- how the performance of the portfolio is evaluated and reported to management;

- how managers of the business are compensated;
- the risks that affect the performance of the business model; and
- the frequency and volume of historical and expected sales.

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

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

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

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

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

1.6.3.1.3. Reclassification of Financial Assets

BNY Mellon SA/NV does not reclassify financial assets subsequent to their initial recognition, except in the period after BNY Mellon SA/NV changes its business model for managing financial assets. In 2018 BNY Mellon SA/NV has not recorded any reclassifications of financial assets.

1.6.3.2. Derivative Financial Instruments Held for Trading - Policy applicable before and after 1 January 2018

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

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

1.6.3.3. Financial Assets Initial recognition and subsequent measurement - Policy applicable before 1 January 2018

1.6.3.3.1 Available-for-sale Financial Instruments

Available-for-sale financial instruments include only debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions (e.g., debt component of the liquid asset buffer). BNY Mellon SA/NV has not classified any loans or receivables as available-for-sale.

After initial recognition, available-for-sale financial instruments are subsequently measured at fair value.

Unrealized gains and losses are recognized in other comprehensive income, with cumulative gains and losses recognized in the 'Other reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the consolidated statement of profit and loss and other comprehensive income in 'Other operating income'. When BNY Mellon SA/NV holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. The losses arising from impairment of such investments are recognized in the consolidated statement of profit and loss and other comprehensive income in 'Impairment losses on financial investments' and removed from the 'Other reserve'.

1.6.3.3.2 Held to Maturity Financial Instruments

Securities classified as held to maturity include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that BNY Mellon SA/NV has both the intention and ability to hold to maturity. An investment is not classified as a held to maturity if BNY Melon SA/NV has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. The classification of investment securities held to maturity is determined at their initial recognition.

Investment securities held to maturity are measured at amortized cost less impairment, with interest (including any premium or discount on acquisition) being recognised in income using the effective interest method (EIR). The amortization is included in 'Interest and similar income' in the consolidated statement of profit and loss and other comprehensive income. Any losses arising from impairment are recognized in the consolidated statement of profit and loss and other comprehensive income in 'Credit loss expenses' a caption that is part of 'Net Operating Income'. No impairment losses were recognized in 2017.

1.6.3.3.3 Loans and Advances to Customers

Loans and advances to customers refer to non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that BNY Mellon SA/NV intends to sell immediately or in the near term and those that BNY Mellon SA/NV upon initial recognition designates as at fair value through profit or loss;
- Those that BNY Mellon SA/NV, upon initial recognition, designates as available for sale; or
- Those for which BNY Mellon SA/NV may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and advances to customers include certificate of deposits, loans to central governments, credit institutions as well as corporate clients.

A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

After initial recognition at fair value, loans and advances to customers subsequently are measured at amortized cost using the EIR, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the consolidated statement of profit and loss and other comprehensive income. Any losses arising from impairment are recognized in the consolidated statement of profit and loss and other comprehensive income in 'Credit loss expenses' a caption that is part of 'Net Operating Income'. No significant impairment was recognized in 2017.

1.6.3.4. Financial Liabilities Measured at Amortized Cost - Policy applicable before 1 January 2018

BNY Mellon SA/NV classifies its financial liabilities as measured at amortized cost using the EIR, except derivative financial instruments that are measured at fair value. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

These comprise deposits by credit institutions, amounts due to customers, subordinated and other financial liabilities presented on the face of the consolidated statement of financial position.

1.6.3.5. Reclassification of Financial Assets - Policy applicable before 1 January 2018

BNY Mellon SA/NV may reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recognized in equity is recycled to the consolidated statement of profit and loss and other comprehensive income.

Reclassification is at the discretion of management, and is determined on an instrument by instrument basis. BNY Mellon SA/NV does not reclassify any financial instruments into the fair value through profit and loss category after initial recognition. In 2017 BNY Mellon SA/NV has not recorded any reclassifications of financial assets.

1.6.4. Derecognition of Financial Assets and Financial Liabilities

1.6.4.1. Financial Assets

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

- The rights to receive cash flows from the asset have expired; or
- BNY Mellon SA/NV has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement where either
  - BNY Mellon SA/NV has transferred substantially all the risks and rewards of the asset, or

- BNY Mellon SA/NV has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

BNY Mellon SA/NV has derecognized financial assets in 2018 and 2017.

1.6.4.2. Financial Liabilities

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

1.6.5. Repurchase and Reverse Repurchase Agreements

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

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

1.6.6. Financial guarantees received

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
In 2016 BNY Mellon SA/NV, as a holder, has entered into a number of financial guarantee agreements, such as letters of credit received from group entity or third party, to cover its large exposures for prudential reporting purposes. These guarantees are recorded in the off balance sheet and recorded at their notional amount. Please see note 26.3 for further details.

1.6.7. Determination of Fair Value

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

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

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

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

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

1.6.8. Impairment of Financial Assets

1.6.8.1. Policy applicable after 1 January 2018

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

- Stage 1 applies to all exposures from initial recognition as long as there is no significant deterioration in credit quality and will employ a 12-month ECL; interest revenue is calculated on the gross carrying amount of the asset.
- Stage 2 applies when a significant increase in credit risk has occurred since initial recognition and employs a lifetime ECL; interest revenue is based upon the gross carrying amount of the asset.
- Stage 3 applies when as asset becomes credit-impaired (can be defined as defaulted); interest revenue is based upon the net carrying amount (net of loss allowance).

1.6.8.1.1 Measurement of ECL

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that BNY Mellon SA/NV expects to receive);
- Financial assets that are credit-impaired at the reporting date – the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Financial guarantee contracts – the expected payments to reimburse the holder less any amounts that the group expects to recover.

BNY Mellon SA/NV maintains an allowance for doubtful accounts for the estimated non-collection of accounts receivable. Uncollectability is presumed 180 days after invoice issue date unless there are known customer - specific reasons for the delay in settlement. Given

BNY Mellon SA/NV's very low ECL rate overall, the effect of ECL on trade receivables is insignificant. Accordingly, no ECL is calculated centrally for such exposures.

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

1.6.8.2. Financial Assets Carried at Amortized Cost - Policy applicable before 1 January 2018

For financial assets carried at amortized cost (such as loans and advances to customers and held to maturity financial assets), BNY Mellon SA/NV assesses individually whether objective evidence of impairment exists for financial assets that are individually significant. BNY Mellon SA/NV does not make any collective assessment for impairment, as its holdings of financial assets are considered to be individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of profit and loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to BNY Mellon SA/NV. If, in a period subsequent to recognition of an impairment loss, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'Credit loss expense'.

1.6.8.3. Available-for-sale Financial Assets - Policy applicable before 1 January 2018

BNY Mellon SA/NV assesses the debt instruments classified as available-for-sale on an individual basis, whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of profit and loss and other comprehensive income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated statement of profit and loss and other comprehensive income, the impairment loss is reversed through the consolidated statement of profit and loss and other comprehensive income.

1.6.9. Offsetting Financial Instruments

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

1.6.10 Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset(s). This assessment is made at inception.

Leases that do not transfer to BNY Mellon SA/NV substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the consolidated statement of profit and loss and other comprehensive income on a straight line basis over the lease term. Contingent rentals payable are recognized as an expense in the period in which they are incurred.

BNY Mellon SA/NV was not acting as lessor on any leasing contracts.

1.6.11. Cash and Cash Equivalents

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

1.6.12. Property and Equipment

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

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

Long leasehold property	-	40 years
Leasehold improvements	-	Over the lesser of the estimated useful life of the asset and the remaining term of the lease
Motor vehicles Computer equipment	-	4 years 4 years
Furniture, fixtures and other equipment	-	4 to 10 years

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

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

1.6.13. Business Combinations and Goodwill

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

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

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

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

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

1.6.14. Intangible Assets other than Goodwill

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

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

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

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

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

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

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

1.6.15. Impairment of Non-Financial Assets

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash-generating units (CGUs) or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level at which the goodwill is monitored for internal management purposes. As explained in the chapter 1.3 above, BNY Mellon SA/NV has determined that the CGU is to be defined as BNY Mellon SA/NV itself.

BNY Mellon SA/NV identified value in use as being the recoverable amount of a cash-generating unit (CGU) in 2018. In assessing value in use of a CGU, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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

1.6.16. Pension Benefits

1.6.16.1. Defined Benefit Plan

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

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

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

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

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of any net asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. An economic benefit is available to BNY Mellon SA/NV if it is realizable during the life of the plan or on settlement of the plan liabilities.

1.6.16.2. Defined Contribution Plan

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

1.6.17. Provisions

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

Restructuring provisions

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

1.6.18. Share-Based Payments

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

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

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

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

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

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

1.6.19. Taxes

1.6.19.1. Current Tax

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

1.6.19.2. Deferred Tax

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

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

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

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

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

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

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

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

1.6.19.3. Sales Tax

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

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

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

1.6.20. Dividends on Ordinary Shares

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

1.6.21. Equity Reserves

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

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

1.6.22. Segment Reporting

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

1.6.23. Assets Under Custody

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Net Interest Income

Interest income	2018 in € '000	2017 in € '000
Cash and cash balances with central banks	—	—
Investment securities	135,113	114,317
Loans and advances to customers	112,599	72,671
Interest income on liabilities	65,559	65,464
Total	**313,270**	**252,452**
Interest expense		
Deposits from credit institutions	58,262	35,389
Deposits from other financial institutions	74,006	17,903
Deposits from non-financial institutions	127	1
Subordinated loans	30,117	30,117
Interest expense on assets	45,491	57,624
Total	**208,003**	**141,034**
Net interest income	**105,268**	**111,418**

The net interest income has presented an decrease of €6 Mio compared to last year mainly due to volume and interest rate changes. The increase in net inter-company interest expense is mainly due to Brussels Branch client transfers to the parent company in the US and in the London branch of the parent as well as change in transfer pricing interest condition for all currencies for Brussels Branch. Next to that there was an increase in USD interest rate following FED rate increases that impacted negatively the interest expense resulting from various BNY Mellon companies. The interest on deposits increased mainly due to USD rate change. the impact of USD rate change is however limited on asset side. Indeed, the increase in interest income earned from securities portfolio is mainly driven by the transfer of a new portfolio of corporate bonds received in USD by BNY Mellon SA/NV. As most part of the portfolio is based on fixed rate, USD rate increase had therefore a limited impact.

In 2018 BNY Mellon SA/NV continued charging negative interest rate to clients, hence better reflecting the cost of maintaining Euro deposits. Interest income on liabilities line shows the negative interest charged to the clients, where appropriately, by BNYM Mellon SA/NV and the interest expense on assets line presents negative interest charged by central bank. These latest central bank deposits have decreased over the year with the expected decrease of the total balance sheet.

3. Net Fee and Commission Income

	2018 In € '000	2017 In € '000
Fee and commission income- contract revenue		
Global Custody	496,281	509,187
Depository Bank Services	21,018	21,132
Fund Accounting	14,816	15,761
American Depositary Receipt	66,215	64,047
Servicing, processing and support fees re-charged	82,111	90,739
Foreign exchange commission revenue	46,361	64,466
Other	30,692	27,128
Total fee and commission income - contract revenue	757,495	792,460
Fee and commission expenses		
Custody	152,828	162,389
Clearing and settlement	791	652
Servicing, processing and support fees re-charged	183,103	190,707
Other	2,735	5,417
Total fee and commission expense	339,457	359,165
Net fee and commission income	**418,038**	**433,295**

Net fee and commission income have moved by €(15) Mio mainly impacted by decrease of Fee income by €(33) Mio partially offset by lower decrease of the expenses by €(20) Mio.

Revenue decrease mainly impacts Custody & Foreign Commissions revenue. Those captions are mainly impacted by BNYM Brussels Branch clients transfer to US/UK, transfer of client contracts of London Branch to the Institutional Bank and certain client terminations in German entities. This is partially compensated by inclusion of a full year of Luxembourg Branch profit and loss (Q1 2017 results of this entity were not included in the year to date 2017 figures). Custody expenses are similarly impacted by the decrease of volume following clients transfer described above.

Servicing (e.g. transactional, safekeeping), processing and support fees are fees re-charged by group companies. On the revenue side, this is mainly collateral management operations and asset servicing (i.e. global custody) operations cost recharged by BNY Mellon SA/NV to group entities. On the expense side this is mainly on asset servicing related operations and overhead charges that would be mainly resulting from other group entities charging BNY Mellon SA/NV for servicing. Results of 2018 are impacted by decrease of volumes following BNYM Brussels branch as well as BNY Mellon SA/NV London branch client transfer and UNA merger[11].

Other fee and commission expense of €3 Mio consists of various miscellaneous fees, of which mainly market data pricing of a total of €1.4 Mio (2017: €5.4 Mio).

[11] As explained in previous years annual accounts, this project is the merger of our Luxembourg branch with the former Luxembourg Bank of the group.

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

	2018	2017
	In € '000	In € '000
Forward foreign exchange contracts	36,798	58,237
	36,798	**58,237**

Realized and unrealized result of currency swaps that act as economic hedges are recorded in this caption totaling €36.8 Mio, net of any FX revaluation on the underlying treasury placements. The result in this caption has significantly decreased in line with expected balance sheet decrease. Main impacts are :

- GBP/EUR €(9.5) Mio swaps decrease in volume. GBP position reduction is mainly due to UK Trust and depository clients' transfer to BNYMIL UK bank.

- USD/EUR €(8.2) Mio swaps decrease in volume mainly due to reinvestment of USD to portfolio or placements. This is driven by the BNY Mellon Institutional Bank decision to decrease USD lending to subsidiaries and decision to increase securities portfolio investment in USD.

5. Other Operating Income

	2018	2017
	In € '000	In € '000
Gains from sales of FVOCI debt instruments	—	430
Gains on de-recognition of non-financial assets, net	25,046	—
Miscellaneous income	727	547
	25,773	**977**

The gains from de-recognition of non-financial assets are related to the sale of client contracts of London Branch of BNY Mellon SA/NV to other entities of BNY Mellon that occurred in July 2018.

6. Personnel Expenses

	2018	2017
	In € '000	In € '000
Wages and salaries	111,879	106,493
Social security contributions	19,040	18,775
Pension costs – Defined benefit plan (Note 22.2)	4,000	7,154
Pension costs – Defined contribution plan (Note 22.1)	4,832	2,431
Share-based payments (Note 25)	1,602	1,774
Other	14,788	13,984
	156,140	**150,611**

The Personnel expenses increased compared with prior year by €6 Mio mainly due to exclusion of Q1 2017 costs of Luxembourg and Milan entities prior to the merger. Other expenses consist principally of medical insurance costs of € 2.9 Mio (2017: €3 Mio), head office shared service staff expenses of €4.4 Mio (2017: €4.3 Mio), commuting programs for employees of €3.3 Mio (2017: €2.9 Mio).

7. Other Operating Expenses

	2018 In € '000	2017 In € '000
Losses on sales of FVOCI bonds	2,745	—
Professional fees	24,956	23,020
IT expenses	24,952	24,761
Bank levies	17,949	16,198
Operational lease expenses	11,773	11,075
Non trading exchange differences	—	3,109
Shared services support (overhead)	38,850	22,190
Temporary clerical assistance	5,609	5,246
Non recoverable VAT	7,602	5,454
Repair and maintenance	3,079	5,256
Miscellaneous, including marketing	14,273	12,609
	151,787	**128,918**

Other operating expenses increased compared to prior year by €22.9 Mio mainly due to share of service support (+€16 Mio). This is mainly driven by new and repriced allocations coming from the parent company mainly related to IT support.

Increase in bank levies (+€1.8Mio) is mainly due to SRF contribution increase for the year (based on increase of target amount to collect from the sector).

The major components of other miscellaneous expenses are: foreign business tax of €0.7Mio (2017: €0.6 Mio), deposit insurance of €1.8Mio (2017: €2 Mio) and transportation costs of €1.9Mio (2017: €1.6 Mio).

The fees incurred towards the statutory auditor including related entities are: audit fees of €1.3 Mio (2017:€1.6 Mio), audit related fees of €0.8 Mio and non-audit fees of € 0.3 Mio (2017: €0.2Mio).

8. Income Tax

The components of income tax expense for the years ended 31 December 2017 and 2018 are:

	2018 In € '000	2017 In € '000
Current tax		
Current income tax	59,772	81,811
Adjustment in respect of current income tax of prior years	—	—
Deferred tax		
Relating to origination and reversal of temporary differences	(11,680)	255
	48,091	**82,066**

8.1. Reconciliation of the Total Tax Charge

Reconciliation between the tax expense and the accounting profit multiplied by Belgium's domestic tax rate for the years ended 31st of December 2017 and 2018 is as follows:

	2018 In € '000	2017 In € '000
Accounting profit before taxes	**(148,383)**	**173,273**
1. Tax expense using Belgian statutory rate of 29.58% (2017:33.99%)	(43,891)	59,097
2. Effect of different tax rates in other jurisdictions	1,260	(9,914)
3. Income not subject to tax	17,295	—
4. Non tax deductible expenses	90,221	42,532
5. Effect of utilization of previously unrecognized tax losses	(497)	—
6. Adjustment in respect of current income tax of prior year	(1,012)	(1,154)
7. Other increase (decrease) in statutory tax charge	(15,284)	(8,494)
Income tax expense reported in the consolidated of comprehensive statement	**48,091**	**82,066**

The effective income tax rate of 2018 is 32.41% (2017: 47.20 %).

8.2. Income Tax Effects relating to Comprehensive Income

	2018			2017		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Net gain/(loss) on actuarial gains and losses	(626)	(35)	(661)	11,885	(4,781)	7,103
Financial instruments at FVTOCI/ Available-for-sale financial assets	(45,429)	8,432	(36,997)	(70,907)	13,750	(57,157)
Total	**(46,054)**	**8,396**	**(37,658)**	**(59,022)**	**8,968**	**(50,054)**

8.3. Current and Deferred Tax

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

	2018	2017
	In € '000	In € '000
Current tax assets		
Pending tax refunds	14,190	5,675
VAT tax receivables	4,076	15,802
Other	27,166	4,906
Total	**45,431**	**26,382**
Current tax liabilities		
Reserve for taxes	19,756	12,011
VAT tax payables	5,789	16,445
Other	—	—
Total	**25,545**	**28,456**

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

	Deferred tax assets 31 December 2018	Deferred tax liabilities 31 December 2018	Statement of Profit and Loss 2018	Other Comprehensive Income 2018	Deferred tax assets Dec 2017	Deferred tax liabilities Dec 2017
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Pensions	3,046	—	(188)	29	2,887	-
Temporary difference on goodwill deductible	—	0	(7,985)	—	-	(7,985)
Temporary difference on intangibles assets deductible	—	(2,271)	(3,309)	—	-	(5,580)
Other liabilities not recognized for tax purposes	31	—	4	—	34	-
Revaluation of financial instruments – available-for-sale	4,760	0	677	(8,430)	-	(2,993)
Other temporary differences	639	0	(902)	—	-	(263)
	8,476	**(2,271)**	**(11,703)**	**(8,401)**	**2,921**	**16,822**
Amounts offset	*686*	*686*			*2,043*	*2,043*
Total	**7,790**	**(1,585)**			**878**	**14,779**

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

9. Financial Assets and Financial Liabilities

9.1 Classification of financial assets and financial liabilities

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

December 31, 2018 In € '000	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI - debt instruments	Amortised cost	Total carrying value
Cash and cash balances with central banks	—	—	—	6,238,261	6,238,261
Financial assets held for trading	295,091	—	—	—	295,091
Loans and advances to customers	—	—		6,535,177	6,535,177
Investment securities	—	—	11,927,449	590,295	12,517,744
Total financial assets	**295,091**	**—**	**11,927,449**	**13,363,734**	**25,586,274**
Financial liabilities held for trading	304,085	—	—	—	304,085
Deposits by central banks	—	—	—	585,458	585,458
Deposits by credit and other financial institutions	—	—	—	21,307,964	21,307,964
Due to non-financial customers	—	—	—	45,931	45,931
Subordinated liabilities	—	—	—	358,755	358,755
Total financial liabilities	**304,085**	**—**	**—**	**22,298,108**	**22,602,193**

December 31, 2017	Trading	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying value
In € '000						
Cash and cash balances with central banks	—	—	—	—	11,785,679	11,785,679
Financial assets held for trading	106,223	—	—	—	—	106,223
Loans and advances to customers	—	—	9,338,026	—	—	9,338,026
Investment securities	—	1,274,651	—	13,156,339	—	14,430,990
Total financial assets	**106,223**	**1,274,651**	**9,338,026**	**13,156,339**	**11,785,679**	**35,660,918**
Financial liabilities held for trading	125,936	0	0	0	0	125,936
Deposits by central banks	0	0	0	0	860,068	860,068
Deposits by credit and other financial institutions	0	0	0	0	31,732,401	31,732,401
Due to non-financial customers	0	0	0	0	10,078	10,078
Subordinated liabilities	0	0	0	0	358,734	358,734
Total financial liabilities	**125,936**	**0**	**0**	**0**	**32,961,281**	**33,087,217**

There were no financial assets or financial liabilities designated as at FVTPL at 31 December 2017.

9.2 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the financial assets and financial liabilities at 1 January 2018.

In € '000	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash balances with central banks	Loans and receivables	Amortised cost	11,785,679	11,785,679
Financial assets held for trading	FVTPL	FVTPL (mandatory)	106,223	106,223
Loans and advances to customers	Loans and receivables	Amortised cost	9,338,026	9,336,478
Investment securities -debt	Available for sale	FVOCI	13,156,339	13,156,282
Investment securities - debt	Held-to-maturity investments	Amortised cost	1,274,651	1,274,648
Total financial assets			**35,660,918**	**35,659,310**
Financial liabilities held for trading	FVTPL	FVTPL (held for trading)	125,936	125,936
Deposits by central banks	Amortised cost	Amortised cost	860,068	860,068
Deposits by credit and other financial institutions	Amortised cost	Amortised cost	31,732,401	31,732,401
Due to non-financial customers	Amortised cost	Amortised cost	10,078	10,078
Subordinated liabilities	Amortised cost	Amortised cost	358,734	358,734
Total financial liabilities			**33,087,217**	**33,087,217**

10. Cash and Cash Balances with Central Banks

	2018 In € '000	2017 In € '000
Cash balances with the National Bank of Belgium	2,145,303	204,634
Placements with other central banks	4,092,958	11,581,045
of which monetary reserves	*251,700*	*328,554*
	6,238,261	**11,785,679**

Deposits with the National Bank of Belgium and with some other central banks mainly represent placements and are available for use in the day-to-day operations of BNY Mellon SA/NV and part of BNY Mellon SA/NV liquid assets buffer. The decrease of €5.5B is mainly due to decrease in the placement with Deutsche Bundesbank by €7.5B offset by an overnight placement with National Bank of Belgium of €1.9B.

11. Loans and Advances to Customers

	2018	2017
	In € '000	In € '000
Loans and advances to		
Central Governments	78	534
Credit institutions	6,215,612	9,142,458
Other financial institutions	320,333	2
Less: Allowance for impairment losses	(847)	—
	6,535,177	**9,338,026**

BNY Mellon SA/NV balance sheet is liquidity driven. Deposits are mainly invested in bonds' portfolio and placements with the central banks. The decrease of loans to credit institutions is principally due to decrease in affiliates term deposits by €2.4B and interest bearing deposits and nostro from third party banks by €1.3B as of 31 December 2018 in line with the overall strategy of decreasing the balance sheet. This decrease was slightly compensated by an increase in affiliates nostro placements and overdrafts by €0.9B.

A loss allowance arising from ECL of €0.85 Mio is reported for loans and advances with customers at 31 December 2018 (2017: €0). The minimal allowance reflects the limited credit risk associated with these assets. BNY Mellon SA/NV deals with high quality rated counterparts and on a very short term basis (as described in more detail in note 28). As a result, there is limited risk that a loan or advance will become non-performing and result in impairment. No non-performing loans and advances exist as of 31 December 2018 and 2017 respectively.

On 25 February 2016, BNY Mellon SA/NV signed a collateral agreement with Deutsche Bank AG to cover exposures incurred by BNY Mellon SA/NV's cash deposits to Deutsche Bank AG and its branches in its capacity of sub-custodian. The carrying amount of the securities given as collateral by Deutsche Bank AG at 31 December 2018 was €173Mio (2017: €242 Mio).

12. Investment Securities

	2018
	In € '000
FVOCI investment securities issued by	**11,927,449**
Central governments	6,969,922
Credit institutions	4,155,057
Non credit institutions	802,470
Investment securities at amortized cost issued by	**590,295**
Central governments	410,039
Credit institutions	180,256
	12,517,744

	2017
	In € '000
Held to maturity investment securities issued by	**1,274,651**
Central governments	1,181,104
Credit institutions	93,547
Available for sale investment securities issued by	**13,156,339**
Central governments	9,722,735
Credit institutions	3,433,604
	14,430,990

BNY Mellon SA/NV invests in highly liquid debt securities to improve the interest margin and to have an adequate liquid asset buffer. The decrease in the investment securities by €2B is in line with the decrease of the balance sheet. It is mainly a decrease in sovereign debt by €1.9B and US Treasury securities by €1.6 due principally to bonds coming to maturity. These bonds were partially replaced by a portfolio of corporate bonds of €0.8B and a transfer of covered bonds of €0.6B from London Branch of the BNYM Institutional Bank. Please refer to note 28.3 for discussion on BNY Mellon SA/NV's approach to managing liquidity.

13. Asset Encumbrance

BNY Mellon SA/NV has signed a collateral agreement with Euroclear to cover an intraday credit line for $2.1B. BNY Mellon SA/NV invests in various bonds (please see note 12); these have been further pledged as collateral to Euroclear during 2017 and 2018.

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

As of 31 December 2018 the carrying and fair value of encumbered assets by type of assets were as follows:

	2018			2017		
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets
Assets	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Debt securities	2,742,135	2,742,775	9,775,609	2,608,070	2,609,216	12,100,078
Other assets	396,706	—	12,986,395	352,276	352,276	21,751,692
	3,138,841	**2,742,775**	**22,762,004**	**2,960,346**	**2,936,624**	**33,851,770**

At year ending 2018, the carrying amount of the debt securities refer to bonds pledged to Euroclear. Other assets encumbered refer to monetary reserves, mainly placed with National Bank of Belgium, treated as encumbered assets as these cannot be not freely withdrawn by the bank. In 2018, other assets include foreign exchange cash collateral of €145 Mio (2017: €23.7 Mio).

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

Encumbered assets/collateral received and associated liabilities	2018 Matching liabilities, contingent liabilities or securities lent	2018 Assets, collateral received and own debt securities issued	2017 Matching liabilities, contingent liabilities or securities lent	2017 Assets, collateral received and own debt securities issued
	In € '000	In € '000	In € '000	In € '000
Carrying amount of financial liabilities				
Derivatives	272,762	145,005	81,946	23,722
Collateralized deposits	17,326	17,326	75,842	75,842
Other sources of encumbrance	—	2,976,510	—	2,860,783
Total sources of encumbrance	**290,088**	**3,138,841**	**—**	**2,960,346**

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

14. Derivative Financial Instruments

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

Derivatives held for trading	Assets 2018	Liabilities 2018	Notional amount 2018	Assets 2017	Liabilities 2017	Notional amount 2017
In € '000						
Forward foreign exchange contracts	295,091	304,085	41,879,653	106,216	125,936	23,224,880
	295,091	**304,085**	**41,879,653**	**106,216**	**125,936**	**23,224,880**

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

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

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

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

15. Other Assets

	2018	2017
	In € '000	In € '000
Prepaid charges	2,403	2,896
Accrued income (other than interest income from financial assets)	55,327	95,292
Accounts receivable, including:	176,780	445,409
From affiliate companies	*34,140*	*54,184*
Miscellaneous	10,320	5,062
	244,831	**548,659**

The accounts receivable balance at year end is highly driven by day-to-day operations. The receivables from affiliate companies refer to the balances with entities that are part of the same group as BNY Mellon SA/NV. Miscellaneous assets include operating transactions that are in a suspense account until clarification that result from day-to-day operations of BNY Mellon SA/NV. The decrease in accounts receivables is mainly due to Corporate Actions and Global Income, where exceptional Dividend Receivable was recorded in 2017 and not repeated in 2018. Next to that the decrease of €20 Mio in affiliate receivables are due to less subcustodian fees charged out by the parent company and lower transfer pricing recharge due to Brussels Branch execution.

BNY Mellon SA/NV's customers are billed based on fee schedules that are agreed upon in each customer contract. The receivables from customers were €89.14Mio at 1 January 2018 and €65.95Mio at 31 December 2018. An allowance is maintained for accounts receivable which is generally based on the number of days outstanding. Adjustments to the allowance are recorded in other operating expense in the Statement of profit and loss and other comprehensive income.

The unbilled receivables were €74.55Mio at 1 January 2018 and €43.13Mio at 31 December 2018 and considered due to the passage of time rather than due to contingent factors; hence there were no contract assets or associated impairment in 2018.

16. Property and Equipment

2018	Leasehold improvements	Computer equipment	Furniture, fixtures and other equipment	Total
Net Book Value	In € '000	In € '000	In € '000	In € '000
At 1 January	3,789	250	1,784	5,823
Additions	2,165	221	1,298	3,683
Business combinations	—	—	—	—
Disposals	(1)	—	—	—
Depreciation charge for the year	(1,745)	(170)	(656)	(2,571)
Other movements	292	—	—	292
At 31 December	**4,499**	**301**	**2,426**	**7,227**
Gross carrying amount	20,693	3,907	10,076	34,676
Accumulated depreciation and impairment	(16,192)	(3,595)	(7,660)	(27,448)

2017	Leasehold improvements	Computer equipment	Furniture, fixtures and other equipment	Total
Net Book Value	In € '000	In € '000	In € '000	In € '000
At 1 January	3,588	260	2,036	5,884
Additions	1	119	383	503
Business combinations	1,673	—	266	1,939
Disposals	—	—	(59)	(59)
Depreciation charge for the year	(1,470)	(129)	(842)	(2,441)
Other movements	(3)	—	—	(3)
At 31 December	**3,789**	**250**	**1,784**	**5,823**
Gross carrying amount	18,745	3,717	8,884	31,347
Accumulated depreciation and impairment	(14,956)	(3,467)	(7,100)	(25,524)

17. Goodwill and Other Intangible Assets

2018	Goodwill	Computer software	Client Contracts	Total
Net Book Value	**In € '000**	**In € '000**	**In € '000**	**In € '000**
At 1 January	**400,923**	**1,091**	**25,559**	**427,573**
Acquisitions	0	540	—	540
Retirement & disposals	—	—	—	—
Amortization charge for the year	—	(1,059)	(3,277)	(4,336)
Goodwill and intangibles impairment	(395,854)	—	(7,131)	(402,985)
Foreign currency translation effects	—	—	—	—
Other movements	(5,069)	—	(6,436)	(11,505)
At 31 December	**—**	**572**	**8,716**	**9,288**
Gross carrying amount	541,923	20,906	39,601	602,430
Accumulated depreciation and impairment	(541,923)	(20,331)	(30,885)	(593,139)

2017	Goodwill	Computer software	Client Contracts	Total
Net Book Value	**In € '000**	**In € '000**	**In € '000**	**In € '000**
At 1 January	**538,490**	**3,264**	**29,906**	**571,660**
Business combinations	3,433	14	—	3,447
Retirement & disposals	—	—	—	—
Amortization charge for the year	—	(2,187)	(4,347)	(6,534)
Goodwill impairment	(141,000)	—	—	(141,000)
Foreign currency translation effects	—	—	—	—
Other movements	—	—	—	—
At 31 December	**400,923**	**1,091**	**25,559**	**427,573**
Gross carrying amount	541,923	29,575	82,944	654,442
Accumulated depreciation and impairment	(141,000)	(28,484)	(57,384)	(226,868)

17.1. Impairment Testing of Goodwill

Under IFRS, goodwill is periodically tested for impairment at BNY Mellon SA/NV level, which was determined to be the cash generating unit. We refer to section 1 (Accounting policies) for the determination of the cash generating unit and the date (30 June) on which goodwill is tested for impairment. As at June 30, 2018, net book value of goodwill was at €395Mio (characterized by an impairment loss of €141Mio recorded in 2017 and a reclassification of €5Mio to non-current assets held for sale following the presentation of the sale of London branch as a disposal group in accordance with IFRS 5).

The impairment testing exercise was performed in the year on a situation as per 30 June 2018, using year end forecasted figures and the 2019 budget prepared on the normalized 2018 figures. For 2020 and years after, the plan used for this exercise is derived from the Strategic plan that besides the base case plan also includes a serie of strategic business initiatives taken by the Company and by the Group to which it belongs. Among these initiatives, BNY Mellon SA/NV included the expected impact from the closure of the Brussels Branch The Bank of New York

Mellon Ltd., the sale of the client contracts of London branch, the increased level of group charges, the disintermediation of the BNY Mellon SA/NV as global sub-custodian by its parent The Bank of New York Mellon Ltd., the German transformation plan and the Brexit impact.

An amount of €396 Mio of impairment losses on goodwill was recognized for the year ended 31 December 2018 (2017:€141Mio).

This additional impairment loss compared to last year is mainly explained by the following events that have taken place in 2018:

- The closure process of the Brussels Branch of The Bank of New York Mellon Ltd. in which clients of the Brussels Branch decided to move sooner to the custody network managed by The Bank of New York Mellon Ltd. As a result, a large portion of Brussels Branch clients will as from 2019 no longer be served through the custody network of BNY Mellon SA/NV. The remainder will move during 2019 to the US network.
- As a result of the lessons learned following from the Brussels Branch closing, it came apparent that other clients of The Bank of New York Mellon Ltd. will no longer be served through the network of BNY Mellon SA/NV. In last year's business planning exercise, this transfer was only foreseen as from 2023.
- A structural increased level of group charges as a result of an increased level of technology and regulatory costs at Group level that have to be recharged to the operating entities.
- Finalization end June 2018 of the sale of the London branch clients resulting in a lower price than initially estimated.
- Impact of additional Brexit initiatives and the German transformation plan which were not included in last year's plan.
- Re-assessment of key assumptions and the increase of the alpha factor by 50 bp compared to last year (see below for more details).

The recoverable amount for BNY Mellon SA/NV was calculated based on the value in use. This value in use was determined by discounting the future cash flows expected to be generated from the cash generating unit's continuing use. Value in use in 2018 was determined in a similar manner as in prior years based on revised assumptions, summarized as follows:

- Cash flows were projected based on net earnings after taxes (corrected for "non-cash" gains/losses) as of 30 June 2018, an updated assessment of the cash flows for the second half of 2018 and the 5-year business plan, excluding year 2018 (cf. supra).
- Terminal cash flows were extrapolated using a constant growth rate of 1.27 percent (2017: 1.55 percent), which is based on the long-term growth assumption of the BNY Mellon SA/NV and set equal to the current long-term risk free rate.
- A discount rate of 9.77 percent (2017: 9.55 percent) was applied in determining the recoverable amounts for the cash generating unit. BNY Mellon SA/NV used a WACC based on European risk free rate and a Belgium premium, in line with previous iterations. Next to this, an alpha of 1.00% (2017: 0.50%) was used to increase the discount rate to reflect the high level of uncertainty from the business plan (given the new initiatives) related to Brexit and German transformation plan. Given the high impact characterised by a very high degree of uncertainty with regards to both initiatives, it is assessed that the uncertainty of the cash flows significantly increased compared to last year justifying a higher alpha compared to last year.

Since end of 2015 as a forward-looking approach, management has decided to advance the timing of the goodwill impairment exercise and use mid-year actuals instead of year-end reporting figures, also aligning it to the internal financial budgeting/forecasting cycle.

2018 earnings are negatively impacted by the one-off €396 Mio impairment of Goodwill as explained in note 1.6. to the annual accounts.

SA/NV is delivering its strategy and is becoming less reliant to the Group. This however results in a lower BNY Mellon SA/NV value, when book value continue to increase.

Although this impairment has a significant impact resulting in a net loss for 2018, it is a non-cash entry that is aligning BNY Mellon SA/NV book value to its fair market value. This has no impact on capital ratios or on BNY Mellon SA/NV sustainability and capability for future growth.

18. Financial Liabilities Measured at Amortized Costs

	2018	2017
	In € '000	In € '000
Deposits by central banks	**585,458**	**860,068**
Deposits from credit institutions	**5,395,671**	**8,198,944**
Current accounts / overnight deposits	5,361,070	8,198,944
Deposits with agreed maturity	34,602	—
Deposits from other financial institutions	**15,912,293**	**23,533,457**
Current accounts / overnight deposits	15,882,522	23,533,457
Deposits with agreed maturity	29,771	—
Deposits from non-financial institutions	**45,931**	**10,078**
Current accounts / overnight deposits	45,931	10,078
Subordinated liabilities (Note 21)	**358,755**	**358,734**
Other financial liabilities	—	—
	22,298,108	**32,961,281**

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

BNY Mellon SA/NV has not had any defaults of principal, interest or other breaches with regard to all liabilities during 2018 (2017: nil €). The decrease of €10.6B in deposits results from various strategic initiatives, including: i) the transfer of assets and liabilities of London branch to other BNYM entities totaling €3.2B, ii) Brussels Branch deposits transfer to BNYM institutional bank and branches totaling €2.4B iii) Allianz lost business of €2.3B in the German entity and iv) BNYM trust and depository client transfer of €1.3B.

19. Other Liabilities

	2018 In € '000	2017 In € '000
Employee benefits – Defined benefit obligation (Note 22.2)	14,374	13,030
Other employee benefits and social charges	26,864	24,589
Leasing liabilities	109	105
Accrued charges (other than from interest expenses on financial liabilities)	46,488	45,311
Accounts Payables	142,461	206,518
Other	53,605	38,618
	283,902	**328,171**

Other liabilities caption decreased mainly due to the third party account payables that decreased by €41.5 Mio compared to 2017 due to Global Income as well as less costs recharged by the parent company. Contract liabilities were €3.15 Mio at 1 January 2018 and €0.8 Mio at 31 December 2018. Revenue recognised in 2018 relating to contract liabilities as of 1 January was €0.58 Mio.

20. Provisions

	Restructuring Costs In € '000	Other provisions	Total
At 1 January 2018	2,257	2,734	4,991
Amounts provisioned	16,961	836	17,797
Amounts utilized	(3,718)	(2,081)	(5,799)
Unused amounts reversed during the period	(614)	(1,234)	(1,847)
Other movements	—	(2)	(2)
At 31 December 2018	14,887	253	15,140
At 1 January 2017	6,572	638	7,210
Amounts provisioned	1,404	2,746	4,150
Amounts utilized	(5,142)	(455)	(5,597)
Unused amounts reversed during the period	(577)	(195)	(772)
Other movements	—	—	—
At 31 December 2017	2,257	2,734	4,991

BNY Mellon SA/NV has implemented a restructuring plan over the past years that has led to job relocation and re-organization of certain functions across different locations. The Brussels office maintains client facing functions, specialized processing activities and numerous shared services functions. The provision as of 31 December 2018 refers to the severance pool for this re-organization across different countries. Other provisions are mainly related to operational claims in Brussels and client tax reclaims in the German branch. No pending or legal issues provisions were accounted for during 2017 or 2018 and existed as of 31 December 2018.

21. Subordinated Liabilities

BNY Mellon SA/NV is the borrower of a perpetual loan from a related party of €92.5 Mio (2017: 92.5 Mio) to be used for general corporate purposes. Interest accrue on the loan at the rate of 8.18% per annum based on the actual number of days elapsed and a year of 360 days.
BNY Mellon SA/NV is also the borrower of a loan maturing on 22 July 2040 from a related party of €253 Mio (2017: €253 Mio) to be used for general corporate purposes. Interest accrues on the loan at the rate of 8.75% per annum and is calculated on the basis of the actual number of days elapsed and a year of 360 days.

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

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

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

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

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

22. Retirement Benefit Plan

22.1. Defined Contribution Plan

BNY Mellon SA/NV has four defined contribution plans to which BNY Mellon SA/NV pays fixed contributions (two plans in the Netherlands, one in Luxembourg and one in Ireland); there is no legal or constructive obligation to pay further contributions. The contribution plan in Belgium is one lump sum out of two parts of a hybrid plan, treated overall as a defined benefit plan. The assets of the plans are held separately from those of BNY Mellon SA/NV in a fund under the control of trustees. For the Irish employees, a defined contribution plan exists.

The total expense of €2.1 Mio (2017: €2.4 Mio) charged to the consolidated statement of profit and loss and other comprehensive income represents contributions payable to these plans by BNY Mellon SA/NV at rates specified in the rules of the plan.

22.2. Defined Benefit Plan

Employee benefits

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

Nature of benefits provided by the Plans

The German Plans are final salary plans and provide pension benefits linked to salary at retirement or earlier date of leaving service. The plans are open to future accrual. The Belgian contribution Plan provides a lump sum to members at retirement and has been closed to new employees since April 2007. Neither plan includes any guarantees provided by BNY Mellon SA/NV or its affiliates.

Regulatory framework in which the Plans operates

The group operates defined benefit pension plans in Belgium and Germany under broadly similar regulatory frameworks.
German Plans: The plans operate under the framework of German company pension law (BetrAVG) and general regulations based on German labor law. The pension plans are closed for new employees. The main pension plans are frozen. The plans are partly funded with assets invested in funds.

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

Other entity's responsibilities for governance of the Plans

German Plans: None.

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

Risks to which the Plans expose the Company

- Asset volatility - If plan assets underperform the discount rate a deficit results. As the Belgian plans are partly invested in fixed income assets, there is a possibility of underperformance against the discount rate and so an increase to the deficit.
- Longevity - Increases in life expectancy will increase plan liabilities, the inflation-linkage of the benefits for the German and Belgian Plans also means that inflationary increases result in a higher sensitivity to increases in life expectancy.
- Inflation risk - The majority of benefits in the German plans are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). The Belgian Plan is less sensitive to inflation as a lump sum is provided at retirement.

Plan amendments, curtailments or settlements

No plan amendments, curtailments or settlements occurred during the financial year of 2018 or 2017.

Funding arrangements and funding policy that would affect future contributions

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

Asset-liability matching strategies

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

Movement in net defined benefit (asset) liability

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

	Defined benefit obligations		Fair value of plan assets		Net defined benefit (liability)/ asset	
	2018	2017	2018	2017	2018	2017
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Balance at 1 January	**(78,451)**	**(84,195)**	**65,421**	**56,821**	**(13,030)**	**(27,374)**
Included in profit or loss						
Current service cost	(2,682)	(3,207)	—	—	(2,682)	(3,207)
Administrative expenses	—	—	(67)	(45)	(67)	(45)
Operating expense/ (income)	**(2,682)**	**(3,207)**	**(67)**	**(45)**	**(2,749)**	**(3,252)**
Net interest on the net benefit obligation/ (asset)	(1,440)	(1,589)	1,219	1,093	(221)	(496)
Finance expense/ (income)	**(1,440)**	**(1,589)**	**1,219**	**1,093**	**(221)**	**(496)**
Net benefit expense	**(4,122)**	**(4,796)**	**1,152**	**1,048**	**(2,970)**	**(3,748)**
Included in other comprehensive income						
Return on plan assets excluding interest income	—	—	(3,236)	3,147	(3,236)	3,147
Experience gains/ (losses)	(1,521)	323	—	—	(1,521)	323
Actuarial gains/(losses) arising from changes in financial assumptions	787	230	—	—	787	230
Actuarial gains/(losses) arising from changes in demographic assumptions	3,143	8,035	—	—	3,143	8,035
Total gains/ (losses) recognized	**2,409**	**8,588**	**(3,236)**	**3,147**	**(827)**	**11,735**
Other						
Net transfers (in)/out	—	—	—	—	—	—
Contribution paid by the employer	—	—	2,453	6,357	2,453	6,357
Benefits paid	2,150	1,952	(2,150)	(1,952)	—	—
	2,150	**1,952**	**303**	**4,405**	**2,453**	**6,357**
Balance at 31 December	**(78,014)**	**(78,451)**	**63,640**	**65,421**	**(14,374)**	**(13,030)**

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

Net defined benefit (obligation)/asset

31 December	2018	2017	2016	2015	2014
	In € '000	In € '000	In € '000	In € '000	In € '000
Fair value of plan assets	63,640	65,421	56,821	55,637	50,953
Defined benefit obligation	(78,014	(78,451	(84,195)	(74,957)	(74,688)
As of 31 December	**(14,374**	**(13,030**	**(27,374)**	**(19,320)**	**(23,735)**

BNY Mellon SA/NV expects to contribute €2.48 Mio to its defined benefit pension plan in 2018 (2017: €2.54 Mio). The cumulative amount of gains and losses recognized in other comprehensive income is presented below:

Gains and losses recognized in other comprehensive income

	2018	2017
	In € '000	In € '000
As of 1 January	9,595	21,330
Recognized during the year	626	(11,735)
As of 31 December	**10,221**	**9,595**

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

	2018	2017
Equity instruments (all quoted), of which:	59.9%	54.36%
Domestic equities	*17.5%*	*16.86%*
Overseas equities	*36.8%*	*34.69%*
Emerging markets equities	*5.6%*	*2.81%*
Debt instruments, of which:[12]	31.9%	40.55%
Corporate/government bonds	31.9%	40.55%
Fixed interest government bonds (unquoted)	0.0%	0.00%
Index-linked government bonds (unquoted)	0.0%	0.00%
Property (all quoted)	3.8%	2.57%
Cash	1.6%	2.5%
Quoted	1.5%	2.47%
Unquoted	0.1%	0.05%
	100%	**100%**

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

The sector allocation of the equity instruments is as follows:

	2018 In € '000	2017 In € '000
Equity instruments, of which:	**38,126**	**35,565**
Energy, industrial companies and materials	8,147	9,984
Consumer Discretionary and Staples	9,911	9,303
Financials	8,411	7,428
Health Care	3,168	3,021
Information Technology	7,416	5,188
Other	1,074	641

Substantially the equity securities and bonds are issued in EUR currency (54.51%, 2017: 71.4%) and traded in active markets. All government bonds are issued by European governments. All bonds are rated as follows:

	2018	2017
AAA	12.1%	13.8%
AA	18.8%	20.2%
A	36.1%	27%
BBB, BB or B	33.0%	39%

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on behalf of BNY Mellon SA/NV at 31 December 2018. The present values of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

Actuarial assumptions and sensitivity analysis

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

	2018	2017
Discount rate	1.90%	2.00%
Future salary growth	2.70%	2.30%
Future pension increase	1.75%	1.62%

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

	2018	2017
Longevity at age 65 for current pensioners		
Males	21.5	21.3
Females	25.2	25.1
Longevity at age 65 for current members aged 45		
Males	22.3	22.0
Females	25.9	25.8

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

Value of obligations at year end if (In '€000) :	Movement	31 December 2018
Discount rate reduced by	1.00%	93,509
Discount rate increased by	1.00%	64,445
Inflation reduced by	1.00%	73,179
Inflation increased by	1.00%	83,702
Life expectancy decreased by	1 year	76,404
Life expectancy increased by	1 year	79,598

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

23. Issued Capital and Reserves

Authorized, issued and fully paid	2018	2017
	In '000	In '000
Ordinary shares of 976.7 € each	1.672	1.672
% Convertible preference shares	-	-
	1.672	**1.672**

BNY Mellon has share option schemes under which options to subscribe for the BNY Mellon's shares have been granted to certain executives and senior employees of BNY Mellon SA/NV.

24. Fair Value of Financial Instruments

24.1. Determination of Fair Value and Fair Value Hierarchy

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

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. Observable inputs imply existence of an active market and should be used in preference to unobservable inputs. Risk free rates and exchange rates are observable inputs. Valuation techniques based on observable inputs are referenced to the current fair value of a similar instrument or a discounted cash flow model.

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

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

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	In € '000	**In € '000**	**In € '000**	**In € '000**
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	—	295,091	—	295,091
Financial investments at FVOCI (Quoted)				
Debt securities	11,723,022	204,427	—	11,927,449
	11,723,022	**499,519**	**—**	**12,222,540**
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	—	304,085	—	304,085
	—	**304,085**	**—**	**304,085**

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	In € '000	**In € '000**	**In € '000**	**In € '000**
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	—	106,216	—	106,216
Financial investments available-for-sale (Quoted)				
Debt securities	12,900,282	256,057	—	13,156,339
	12,900,282	**362,273**	**—**	**13,262,555**
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	—	125,936	—	125,936
	—	**125,936**	**—**	**125,936**

BNY Mellon SA/NV did not transfer any financial instruments from level 1 to level 2 and from level 1 and level 2 to level 3 of the fair value hierarchy in 2018 or 2017.

24.2. Financial Instruments Recorded at Fair Value

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

24.2.1. Derivatives

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

At 31 December 2017, OTC derivative assets and derivative liabilities included a credit valuation/ debit valuation adjustment (CVA/DVA) when measuring their fair value with an insignificant impact on the fair value**.** As of December 2018 the CVA adjustment was immaterial, hence it was not adjusted.

24.2.2. Financial Instruments – FVOCI (2018)/ Available-for-sale (2017)

Available-for-sale financial assets classified within Level 1 mainly consist of government securities that are actively traded in highly liquid over-the-counter markets. These securities are valued using recent quoted unadjusted prices.

If quoted market prices are not available, the fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For securities where quotes from recent transactions are not available for identical securities, BNY Mellon SA/NV determines fair value primarily based on pricing sources with reasonable levels of price transparency. Specifically, the pricing sources obtain recent transactions for similar types of securities (e.g. vintage, position in the securitization structure) and ascertain variables such as speed of prepayment and discount rate for the types of transaction and apply them to similar types of bonds. BNY Mellon SA/NV views these as observable transactions in the current marketplace and classifies such securities as Level 2.

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

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

24.3.1. Assets for which Fair Value Approximates Carrying Value

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

24.3.2. Fixed Rate Financial Instruments

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

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

For all financial assets not measured at fair value, for which we disclose a fair value, the fair value measurement qualifies as Level 1. BNY Mellon SA/NV reassessed its presentation of the fair value hierarchy of financial liabilities in 2017 and considers that the Level 2 reflects better the valuation technics used to estimate the value of financial liabilities given that the valuation is not derived directly from currently available transaction prices.

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash balances with central banks	6,238,261	6,238,261	11,785,679	11,785,679
Loans and advances to customers	6,535,177	6,535,177	9,338,026	9,338,026
Debt instruments at amortised cost (2018)/ held to maturity (2017) - Quoted	590,295	597,038	1,274,651	1,277,446
Financial liabilities				
Financial liabilities at amortized cost	22,298,108	22,298,108	32,961,281	32,961,281

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

Interest income from financial instruments measured at amortized cost	2018	2017
	in € '000	in € '000
Cash and cash balances with central banks	—	—
Loans and advances to customers	112,599	138,134
Debt instruments at amortised cost (2018)/ held to maturity (2017) - Quoted	6,462	10,138
Total	**119,061**	**148,272**

Interest expense from financial instruments measured at amortized cost	2018	2017
	in € '000	in € '000
Deposits	132,396	110,917
Subordinated loans	30,117	30,117
Total	**162,512**	**141,034**

25. Share-based Payment

The share-based payment plans are described below. There have been no cancellations of or modifications to, any of the plans during 2018.

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

Stock options were not issued in the last two years. The ones outstanding were granted at fair market value at the date of grant and vest 25% each year on the anniversary of the grant. Awards automatically lapse on the 10th anniversary of the grant. Each grant under the plan is issued with its own set of terms and conditions as described above. The plan is administered in the US and there are a number of exercise methods available to scheme participants including "cashless for cash" and "buy and hold" options.

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

	2018	2017
	In € '000	In € '000
Expense arising from equity-settled share-based payment transactions	1,602	1,774
Total expense arising from share-based payment transactions	**1,602**	**1,774**

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

Options

	2018			2017		
	No.	WAEP USD	WAEP EUR	No.	WAEP USD	WAEP EUR
Outstanding at the beginning of the year	133,206	27.04	23.88	159,274	31.68	28.63
Exercisable at the beginning of the year	133,206	27.04	23.88	159,274	31.68	28.63
Staff transfers during the year	1,063	—	—	—	-	-
Granted and vested during the year[14]	—	—	—	54,069	30.58	27.00
Exercised during the year	50,058	31.11	26.34	-71,505	(38.21)	33.74
Expired during the year	1,397	—	—	-8,632	-	—
Outstanding at the end of the year	80,688	26.77	22.67	133,206	27.04	23.88
Exercisable at the end of the year	80,688	26.77	22.67	133,206	27.04	23.88

[14] The movement of granted and vested for 2017 includes the internal transfer of 7,070 options and 834 restricted stocks from the Luxembourg entity of BNYM SA/NV to the Luxembourg bank that merged with BNYM SA/NV.

Restricted stock

	2018	2017
	No.	No.
Outstanding at the beginning of the year	81,917	76,558
Staff transfers during the year	398	—
Granted during the year	35,640	64,684
Vested and exercised during the year	44,444	(58,138)
Forfeited during the year	1,034	(1,187)
Outstanding at the end of the year	71,681	81,917
Non vested expected to vest at year end	70,765	80,840

The weighted average remaining contractual life of options outstanding at year end is 1.88 years (2017: 2.44 years).

The range of exercise price of options outstanding at year end is from USD 18.02 to USD 30.20 (2017: USD 18.02 to USD 45.40).

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

The share price and exercise price are the same and equal the price of BNY Mellon stock on the date of grant. No stock options were granted during the past years and thus there is no available input data to the model used for equity-settled options for the years ended 31 December 2018 and 2017.

26. Contingent Liabilities, Commitments and Leasing Arrangements

26.1. Legal Claims

In 2013 a Swedish Arbitral Tribunal issued an award of over USD500m against the Republic of Kazakhstan (“RoK”) in favour of Anatolie Stati, Gabriel Stati, Ascom Group S.A. and Terra Raf Trans Traiding Ltd (together the "Stati Parties"). This award has been upheld by the Swedish Supreme Court. The Stati Parties have sought to legally enforce this award in numerous jurisdictions against RoK’s assets held by any party. In October 2017 BNYM SA/NV London Branch (“SA/NV”) was served with a conservatory garnishment order in Belgium, ordering SA/NV to freeze certain assets belonging to RoK and its National Fund. Accordingly, and in compliance with SA/NV’s legal obligations, SA/NV froze assets held by its client, the National Bank of Kazakhstan (“NBK”), for the National Fund. On 25 May 2018 the amount of the Belgian freeze was reduced, but remains in place pending the outcome of further legal proceedings in England regarding the nature of the relationship among RoK, NBK and SA/NV and the accuracy of SA/NV’s prior statements as the garnishee in the Belgian proceedings. Previously, the English High Court and Court of Appeal dismissed NBK/RoK’s lawsuit against SA/NV where court rulings were sought stating that SA/NV were not contractually entitled to freeze the assets in question.The outcome of these matters is highly uncertain and as a result it is not currently practicable to estimate any impact.

German authorities are conducting investigations of past “cum/ex” trading. Historically, such trading involved the purchase of equity securities on or shortly before the dividend date but settled after that date, creating a risk that a party could obtain a potentially unwarranted refund of withholding tax. German tax law was later amended to prevent parties from obtaining potentially unwarranted refunds through cum/ex trading. In some instances, the authorities have taken the view that past cum/ex trading may have resulted in tax avoidance or evasion, and have demanded repayment of certain tax refunds. The Bank of New York Mellon SA/NV (“BNYM SA/NV”) and its subsidiary BNY Mellon Service Kapitalanlage-Gesellschaft mbH (“BNYM KAG”), have been informed by German authorities that the authorities are investigating potential cum/ex trading by certain third-party investment funds, where BNYM SA/NV had acquired entities in 2010 (the “Acquired Entities”) that served as depositary and/or fund manager for those third-party investment funds. BNYM SA/NV has received preliminary information requests from the authorities relating to activity prior to the 2010 acquisitions that could trigger potential tax liabilities. BNYM SA/NV is cooperating fully with those requests. Neither BNYM SA/NV nor BNYM KAG has received any tax demand concerning cum/ex trading. The agreement under which BNYM SA/NV acquired the Acquired Entities includes an indemnity for tax liabilities from the sellers that we intend to pursue as necessary. The outcome of these matters is highly uncertain and as a result it is not currently practicable to estimate any impact.

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

26.2. Off-balance Sheet

The off-balance sheet items consist mainly of: (i) the assets under custody (AUC) totaling €2,373B as of 31 December 2018 (2017: €3,608B), (ii) other received commitments, and (iii) lease arrangements.

Please note, the decrease of AuC in 2018 is due to the desintermediation of the Bank of New York Mellon SA/NV from the custody chain for the BNY Mellon US Institutional bank clients (mainly due to Brussels Branch client transfer).

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

Overview of off balance sheet positions:

CATEGORY	2018 In € Mio	2017 In € Mio
Contingent placements	—	12
Financial guarantees received for state guaranteed bonds (Note 28.2.4)	802	656
Securities received as collateral (Note 26.3)	173	242
Other commitments received (Note 26.3)	1,250	1,250
Assets under custody	2,373,071	3,608,449

The amount of assets under custody received, split by currency at 31 December 2018, are presented in the table below:

	2018			2017		
	EUR	Other currency	Total	EUR	Other currency	Total
	In € 'Mio	In € 'Mio	In € 'Mio	In € 'Mio	In € 'Mio	In € 'Mio
Assets under custody	1,042,542	1,330,529	2,373,071	1,411,755	2,196,695	3,608,449
	1,042,542	**1,330,529**	**2,373,071**	**1,411,755**	**2,196,695**	**3,608,449**

26.3. Collateral and other commitments received

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

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

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

26.4. Lease Arrangements

BNY Mellon SA/NV has entered into commercial operating leases on premises and equipment. These leases have an average life of 4 years for machine and equipment rental commitments and 9 years for premises lease commitments with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

For the lease payments recognized in profit and loss in the period please refer to note 7. Future minimum lease payments under non-cancellable operating leases as at 31 December 2018 and 2017 are as follows:

	2018	2017
	In € '000	In € '000
Within one year	10,719	10,932
After one year but not more than five years	36,904	30,311
More than five years	8,448	10,350
	56,072	**51,592**
of which:		
Car and equipment lease	*4,374*	*4,568*
premises lease	*51,697*	*47,024*

The increase in the minimum lease payments is notably due to Frankfurt Branch that renegotiated the MesseTurm lease agreement and signed a new one in 2018 (fixed lease term 30 September 2026).

27. Related Party Disclosures

27.1. Key Management Compensation

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

	2018	2017
	In € '000	In € '000
Short-term employee benefits	2,716	2,411
Post-employment benefits	93	87
Other long-term benefits	15	14
Termination benefits		—
Share based payments	140	143
	2,964	**244**

Short-term employee benefits section consists of salaries of €2,357 thousand (2017: €2,097 thousand), social charges of €317 thousand (2017: €271 thousand) and pension expenses of €43 thousand (2017: €42 thousand). Compared to prior year the increase is mainly due to the remuneration of the key executives and four independent directors.

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

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

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

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

27.3. Transactions with Related Parties

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

Amounts payable to and amounts receivable from related parties

	2018			2017		
	Parent	Own subsidiaries	Other entities of the group	Parent	Own subsidiaries	Other entities of the group
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Assets: loans and advances	2,459,917	—	368,347	3,904,647	—	455,680
Current accounts	2,450,672	2	368,347	3,830,083		455,207
Term loans	9,245	—	—	74,564		472
Other receivables	262,233	523	9,341	169,826	402	8,766
TOTAL ASSETS	**2,722,150**	**523**	**377,688**	**4,074,473**	**402**	**464,446**
Deposits	3,334,888	10,718	905,274	6,255,325	2,790	1,736,516
Subordinated liabilities	—	—	358,755			354,950
Other liabilities	38,940	472	7,423	104,013	788	3,879
TOTAL LIABILITIES	**3,373,828**	**11,189**	**1,271,452**	**6,359,338**	**3,578**	**2,095,345**

Income and expense generated by transactions with related parties

	2018			2017		
	Parent	Own subsidiaries	Other entities of the group	Parent	Own subsidiaries	Other entities of the group
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Interest income	57,061	33	5,802	56,459	20	8,084
Fees and commissions	352,542	3,084	49,429	387,065	1,993	46,291
Other	202	335		—	1,370	—
TOTAL INCOME	**409,805**	**3,452**	**55,267**	**443,524**	**3,383**	**54,375**
Interest expense	73,636	5	37,960	26,250	18	36,943
Fees and commissions	153,486	2,811	30,084	166,377	2,899	24,638
Other	52,717		10,577	39,850		7,926
TOTAL EXPENSE	**279,840**	**32,326**	**78,620**	**232,477**	**2,917**	**69,507**

27.4. Terms and Conditions of Transactions with Related Parties

The outstanding balances arise from the ordinary course of business. Outstanding balances at the year-end are unsecured. Nonetheless, the term deposits with BNY Mellon are covered by a master agreement that contains a right to withdraw prior to maturity date subject to early withdrawal penalty (break clause). For the year ended 31 December 2018, receivables on related parties are not considered to be doubtful and hence no provision for doubtful debt has been made.

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

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

Branches	Country of incorporation	Nature of activity
		2018
The Bank of New York Mellon SA/NV - Amsterdam Branch	Netherlands	Asset Servicing, Markets
The Bank of New York Mellon SA/NV - London Branch	United Kingdom	Asset Servicing, Corporate Trust, Markets
The Bank of New York Mellon SA/NV - Frankfurt Branch	Germany	Asset Servicing, Corporate Trust, Markets.
The Bank of New York Mellon SA/NV - Luxembourg Branch	Luxembourg	Asset Servicing, Corporate Trust, Markets
The Bank of New York Mellon SA/NV – Milan Branch	Italy	Corporate Trust
The Bank of New York Mellon SA/NV	Belgium	Asset Servicing, Broker/Dealer Services, Markets
The Bank of New York Mellon SA/NV - Dublin Branch	Ireland	Asset Servicing, Corporate Trust, Markets
The Bank of New York Mellon SA/NV - French Branch	France	Corporate Trust
BNY Mellon Service Kapitalanlage - Gesellschaft mbH (subsidiary)	Germany	Asset Servicing

Name of Subsidiary	Country of incorporation	% equity interest	% equity interest
		2018	2017
BNY Mellon Service KVG	DE	100%	100%
Stichting Administratiekantoor BNY Mellon Global Custody	NL	100%	100%

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

Branches	Turnover*	Profit before tax	Profit after tax	No of FTE (equivalent)
	In € '000	In € '000	In € '000	
The Bank of New York Mellon SA/NV	305,733	137,826	113,716	581
The Bank of New York Mellon SA/NV - London Branch	67,577	63,893	50,478	—
The Bank of New York Mellon SA/NV - Amsterdam Branch	57,080	(243,594)	(245,506)	147
The Bank of New York Mellon SA/NV - Dublin Branch	56,036	6,639	1,683	236
The Bank of New York Mellon SA/NV - Luxembourg Branch	47,162	5,745	2,148	169
BNY Mellon Service Kapitalanlage - Gesellschaft mbH	21,379	(52,022)	(51,749)	90
The Bank of New York Mellon SA/NV - Frankfurt Branch	18,560	(65,088)	(65,175)	185
The Bank of New York Mellon SA/NV - Italian Branch	6,521	(1,761)	(1,956)	23
The Bank of New York Mellon SA/NV - French Branch	2,595	(22)	(114)	8
Total	**582,643**	**(148,383)**	**(196,474)**	**1,439**

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

27.6. Business Combinations

No business combinations occurred in 2018.

On 1 April 2017, BNY Mellon, Luxembourg, SA has merged with BNY Mellon SA/NV. As a result of this merger, the activity of BNY Mellon, Luxembourg, SA has been integrated into the existing BNY Mellon SA/NV, Luxembourg branch and BNY Mellon SA/NV has a seventh branch, in Milan.

The operation was a cross-border merger, on merger date BNY Mellon SA/NV issued 127,251 new shares in exchange of all assets and liabilities of BNY Mellon Luxembourg SA.

28. Risk Management

28.1. General

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

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

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

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

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

28.1.1. Risk Management Framework

Risk Appetite

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

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

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

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

28.1.2. Committees assisting the Executive Committee

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

Risk Management Committee (“RMC”)

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

The aim of the RMC is to establish and maintain a capable, effective forward looking risk organization that is well placed to identify and manage emerging risks for the legal entity including its branches and subsidiary. The RMC provides risk-based challenge to the Business (1st line of defense) establishes and maintains a risk culture, advises the Executive Committee as second line of defense on risk matters.
The Committee is responsible for ensuring that risk and compliance activities undertaken by BNY Mellon SA/NV and its underlying branches and subsidiary and businesses are executed in accordance with internal policies and all relevant regulations.

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

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

Asset and Liability Committee (“ALCO”)

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

Business Acceptance Committees (BAC)

The 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 Receipt, Markets, and Broker-Dealer & Advisory Services.

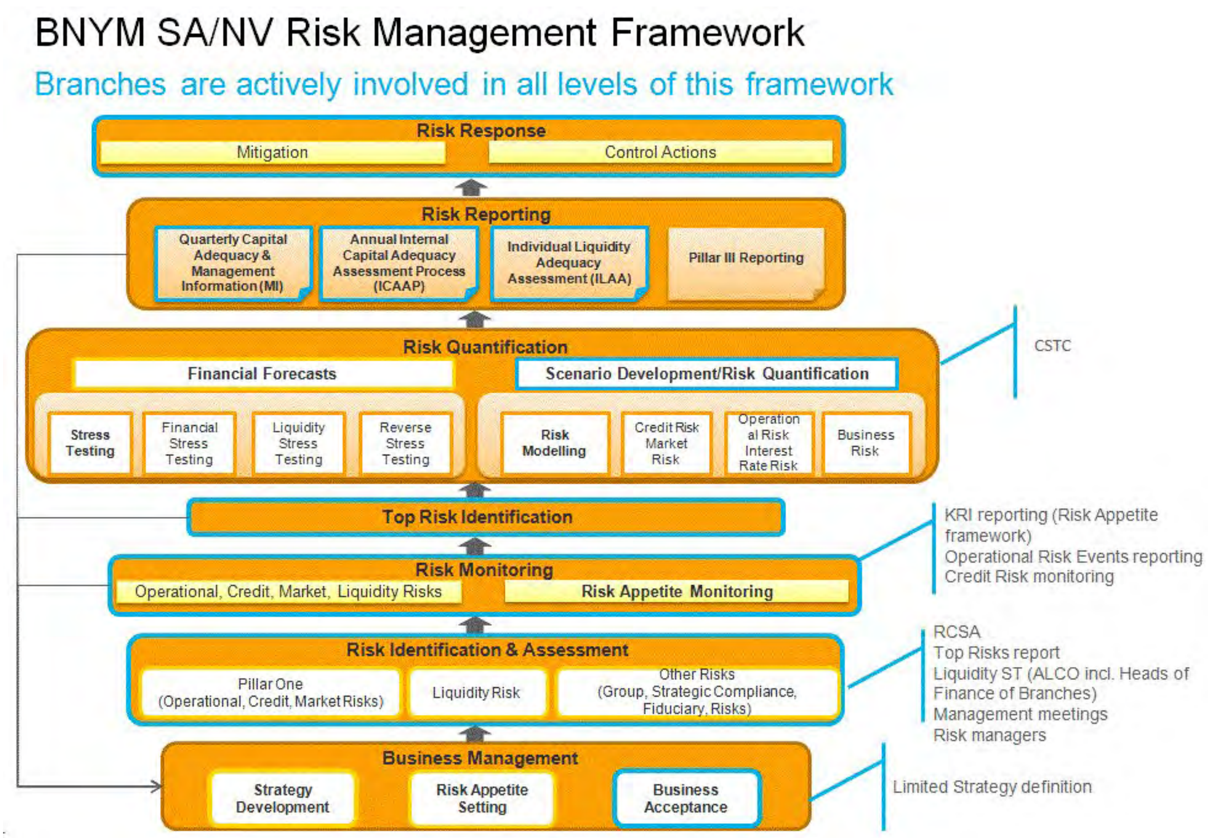
BNY Mellon SA/NV representatives, selected by the ExCo for their expertise, sit at BACs when BNY Mellon SA/NV deals have to be approved.

Credit Risk Oversight Committee (“CROC”)

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

28.1.3. Description of the Risk Management Framework

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



BNY Mellon SA/NV Risk management oversees each one of the BNY Mellon SA/NV Branches, the Brussels Head Office, and the KVG Subsidiary. A Branch Risk Report is prepared monthly at Branch and Subsidiary level including details relevant for the business at Branch and Subsidiary level. This report is reviewed monthly at the Branch Management Meeting, and also presented to the BNY Mellon SA/NV Risk Management Committee by the Branch Managers where items are discussed and escalated. All the documentation is stored by the BNY Mellon SA/NV RMC secretary, including minutes and action points.

28.1.4. Risk Assessment Methodology and Reporting Systems

Risk identification and monitoring occur in the business (operational areas) and within focused risk departments. Several processes are in place in order to ensure that the risks are correctly and timely identified and monitored. Monitoring and controlling risks is primarily performed based on limits established by BNY Mellon SA/NV. These limits reflect the business strategy and market environment of BNY Mellon SA/NV as well as the level of risk that BNY Mellon SA/NV is willing to accept. In addition, BNY Mellon SA/NV's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

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

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

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

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

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

Pillar 1 capital requirement is calculated according to the Basel standardized approach for credit, market and operational risks, and for credit value adjustment. The standard formula is based on weighting factors applied to the balance sheet and profit and loss components.
Pillar 2 capital requirement is based on an internal risk assessment of the components of the balance sheet and of the business activities; it uses BNY Mellon SA/NV methodologies (most being BNY Mellon methodologies) which follow an approval process including independent validation by BNY Mellon’s model validation team. These methodologies are approved by BNY Mellon SA/NV Capital and Stress Testing Committee and by BNY Mellon SA/NV Board of Directors during the annual ICAAP approval. BNY Mellon SA/NV also conducts stress tests in order to assess the resilience of the capital base in the future. This provides an avenue for micro- and macro-economic scenarios, new activities or strategic plans to be assessed from a capital perspective.

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

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

28.1.6. Risk Mitigation

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

28.2. Credit Risk

28.2.1. Source of Risks

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

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

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

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

28.2.2. Credit Risk Management Framework

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

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

28.2.3. Credit Risk Monitoring and Control

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

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

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

Derivative financial instruments

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

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

The exposure value of derivatives as of 31 December 2018 is €295 Mio (2017: €106 Mio).

Offsetting financial assets and financial liabilities

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

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

Financial assets and liabilities subject to offsetting, enforceable master netting agreements for the year 2018 are presented in the following table:

	Gross amounts of recognized financial instruments	Gross amounts of recognized financial liabilities/assets offset in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Related amounts of financial instruments not offset in the statement of financial position
	In € '000	In € '000	In € '000	In € '000
Financial assets				
Loans and advances to customers	1,809,234	1,790,177	19,057	18,287
Financial liabilities				
Deposits	2,435,713	1,790,177	645,536	18,287

In prior years BNY Mellon SA/NV's activities of sale and repurchase, and reverse sale and repurchase transactions, and securities borrowing and lending were covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements. As of 31 December 2018 and 2017, no such transactions existed within BNY Mellon SA/NV.

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

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

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

At 31 December 2018 BNY Mellon SA/NV had no exposures subject to the above agreements.

28.2.4. Collateral and Other Credit Enhancements

BNY Mellon SA/NV can receive collateral from a counterparty which can include, guarantees, cash and both equity and debt securities. When a right of pledge exists, BNY Mellon SA/NV has the ability to call on this collateral in the event of a default by the counterparty.
Collateral amounts are adjusted on a daily basis to reflect market activity to ensure they continue to achieve an appropriate mitigation of risk value. Securities are marked-to-market daily and haircuts are applied to protect BNY Mellon SA/NV in the event of the value of the collateral suddenly reducing in value due to adverse market conditions. Customer agreements can include requirements for the provision of additional collateral should valuations decline.

28.2.5. Risk Concentrations: Maximum Exposure to Credit Risk

Credit concentration risk results from concentration of exposures to a single counterparty, borrower or group of connected counterparties or borrowers. This includes on- and off-balance sheet exposures. In addition, industry, country and collateral concentration bear additional credit risk as the systemic credit quality issue in a sector will create losses for the whole sector.
The risk of credit concentrations is controlled and managed according to client/counterparty as opposed to industry. Country limits (in particular for the securities portfolio) are approved by the CROC.

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

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

In March 2014, a Master Netting Agreement (MNA) was signed between BNY Mellon SA/NV and BNY Mellon. This agreement has a significant positive impact on the credit risk capital requirement and thereby on BNY Mellon SA/NV solvency ratio. An additional MNA was signed with BNYM International Limited in July 2015. These MNA were still in place as of 31/12/2018.

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

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

There was no regulatory breach in 2018 or 2017, neither towards external counterparties nor towards intergroup exposures.

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

Overview of maximum credit risk exposure

	Maximum risk position		Collateral	
	2018	2017	2018	2017
	In € '000	In € '000	In € '000	In € '000
Cash and cash balances with central banks	6,238,261	11,785,679	—	—
Derivative financial instruments (asset side)	295,091	106,216	—	—
Investment securities (Note 26.2)	12,517,744	14,430,990	801,836	656,248
Loans and advances to customers (note 26.3)	6,535,177	9,338,026	230,568	408,379
Derivative financial instruments (liability side)	304,085	125,936	—	—
Financial liabilities measured at amortized cost	22,298,108	32,961,281	—	—
Deposits	*21,939,353*	*32,602,547*	—	—
Subordinated liabilities	*358,755*	*358,734*	—	—
Other financial liabilities	—	—	—	—

	Maximum credit risk exposure by region, carrying values:				2018	2017
	Africa	Americas	Europe	Asia Pacific	In € '000	In € '000
FINANCIAL ASSETS						
Cash and cash balances with central banks	25	—	6,238,219	17	**6,238,261**	**11,785,679**
Derivative financial instruments	3,606	68	291,148	269	**295,091**	**106,216**
Investment securities	—	4,116,793	8,047,580	353,372	**12,517,744**	**14,430,990**
Loans and advances to customers	65,098	1,199,563	3,129,983	2,140,534	**6,535,177**	**9,338,026**
TOTAL FINANCIAL ASSETS	**68,729**	**5,316,424**	**17,706,930**	**2,494,192**	**25,586,274**	**35,660,911**
FINANCIAL LIABILITIES						
Derivative financial instruments	242	3,482	298,517	1,844	**304,085**	**125,936**
Deposits	101,673	2,353,714	19,255,031	587,689	**22,298,108**	**32,961,281**
TOTAL FINANCIAL LIABILITIES	**101,915**	**2,357,196**	**19,553,548**	**589,533**	**22,602,193**	**33,087,217**

Maximum credit risk exposure by industry, carrying value:					2018	2017
	Credit institutions	General Government	Other Financial institution	Non-Financial institution	In € '000	In € '000
FINANCIAL ASSETS						
Cash and cash balances with central banks	6,238,261	—	—	—	**6,238,261**	**11,785,679**
Derivative financial instruments	227,737	15	67,340	—	**295,091**	**106,216**
Investment securities	4,335,313	7,379,961	19,728	782,742	**12,517,744**	**14,430,990**
Loans and advances to customers	6,214,765	78	320,333	1	**6,535,177**	**9,338,026**
TOTAL FINANCIAL ASSETS	**17,016,076**	**7,380,054**	**407,401**	**782,743**	**25,586,274**	**35,660,911**
FINANCIAL LIABILITIES						
Derivative financial instruments	102,107	—	201,502	476	**304,085**	**125,936**
Deposits	5,981,130	38,576	16,271,048	7,355	**22,298,108**	**32,961,281**
TOTAL FINANCIAL LIABILITIES	**6,083,237**	**38,576**	**16,472,549**	**7,831**	**22,602,193**	**33,087,217**

28.2.6. Monitoring Sovereign Risks

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

Overview of exposure to sovereign debt at year-end 2018 and 2017, carrying value (in € 000):

Country	Held-for-trading	Balances with Central Banks	Investment securities		Loans and advances	2018	2017
			FVOCI	Amortised Cost			
Belgium	—	2,145,094	229,290	11,328	—	**2,385,712**	**885,603**
Germany	—	3,964,035	486,017	—	—	**4,450,053**	**12,142,306**
Spain	—	—	438,132	—	—	**438,132**	**491,959**
France	—	—	1,156,225	140,753	—	**1,296,977**	**1,685,819**
United Kingdom	—	1,203	765,964	28,548	—	**795,715**	**1,364,936**
Ireland	5,989	31,182	93,898	—	78	**131,148**	**129,294**
Italy	—	46,790	655,137	—	—	**701,927**	**880,710**
Luxembourg	—	27,296	395,433	—	—	**422,729**	**422,348**
Netherlands	—	22,619	740,834	53,592	—	**817,045**	**910,281**
Sweden	—	—	30,268	—	—	**30,268**	**30,642**
United States	—	—	1,978,724	175,818	—	**2,154,542**	**3,743,666**
Other	3,744	42	—	—	—	**3,786**	**3,695**
TOTAL	**9,734**	**6,238,261**	**6,969,922**	**410,039**	**78**	**13,628,034**	**22,691,259**

28.2.7. Credit Quality by Class of Financial Assets

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

BNY Mellon's internal methodology for borrower ratings is based on external ratings and a dedicated internal assessment. The internal rating scale ranges from 1 to 18 and is mapped to internally estimated probabilities of default. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on BNY Mellon SA/NV's internal credit rating system. This system can be linked to more common rating systems available on the market. The amounts represent the credit risk exposures as calculated according to regulatory rules. There are no impaired financial assets recognized for BNY Mellon SA/NV in 2018 (2017: € nil).

Internal BNY Mellon rating	S&P' equivalent grades	Moody's equivalent grades	Held-for-trading	Balances with Central Banks	Investment securities*		Loans and receivables	2018	2017
					Available for sale	Held to maturity			
								€ Mio	**€ Mio**
1-2	AAA/AA+	Aaa/Aa1	—	4,014	7,304	317	457	**12,092**	**17,897**
3-6	AA/A	Aa2/ A2	232	2,145	3,160	268	4,701	**10,506**	**13,698**
7-9	A-/BBB	A3 /Baa2	57	31	800	5	1,156	**2,050**	**2,712**
10-13	BBB-/BB-	Baa3/Ba3	3	47	664	0	161	**874**	**931**
14-16	B+/B-	B1/B3	1	—	—	—	35	**36**	**141**
17	CCC+	Caa1	—	—	—	—	—	**—**	**15**
NR			2	1	—	—	25	**28**	**112**
Total			**295**	**6,238**	**11,927**	**590**	**6,535**	**25,586**	**35,506**

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

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

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

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt instruments (2018) split by Stage 1, Stage 2 and Stage 3. Explanations on the stages classification is included in Note 1.6.8.1.

	Stage 1 In € '000	Stage 2 In € '000	Stage 3 In € '000	Total In € '000
Cash with central banks and Loans and advances to customers at amortised cost				
Grades 1-10: Investment grade	12,568,973	19,343	—	12,588,316
Grades 11-14: Non investment grade	134,381	6	—	134,388
Grade 15-16: Criticised asset	26,053	25,529	—	51,582
Grades 17-18: Default	—	—	—	—
	12,729,408	44,878	—	12,774,286
Loss allowance	219	629	—	847
Carrying amount	**12,729,189**	**44,249**	**—**	**12,773,438**
Debt investment securities at amortised cost (2017: held to maturity)				
Grades 1-10: Investment grade	590,299	—	—	590,299
Grades 11-14: Non investment grade	—	—	—	—
Grade 15-16: Criticised asset	—	—	—	—
Grades 17-18: Default	—	—	—	—
	590,299	—	—	590,299
Loss allowance	4	—	—	4
Carrying amount	**590,295**	**—**	**—**	**590,295**
Debt investment securities carried at FVOCI (2017: available for sale)				
Grades 1-10: Investment grade	11,927,605	—	—	11,927,605
Grades 11-14: Non investment grade	—	—	—	—
Grade 15-16: Criticised asset	—	—	—	—
Grades 17-18: Default	—	—	—	—
	11,927,605	—	—	11,927,605
Loss allowance	155	—	—	155
Carrying amount	**11,927,449**	**—**	**—**	**11,927,449**

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

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

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

- BNY Mellon SA/NV determines that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries, in full, without recourse by BNY Mellon SA/NV to actions such as realizing collateral (if held).
- The obligor is past due more than 90 days on any material credit obligation to BNY Mellon SA/NV, its ultimate parent undertaking or any subsidiary of its parent undertaking. The assessment of number of days past due will begin from the date of first missed payment. The trigger to count past due days for overdrafts is when the legal obligation for mandatory payment has been established.

Significant increase in credit risk
Internal credit rating-based approach is used for wholesale exposures
BNY Mellon SA/NV allocates to exposures a credit risk grade that is based on experienced credit judgment and a variety of data that is predictive of the risk of default. BNY Mellon SA/NV will use its 18 point internal credit rating scale to determine a significant increase in credit risk for wholesale exposures (cash and due from banks, interest bearing deposits, loans including overdrafts and unfunded commitments and letters of credit):
- 1-10 Investment grade
- 15-16 Criticized asset rating
- 17-18 Default rating

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

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

Inputs into measurement of ECL
The key inputs into the measurement of ECL are:
- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

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

The expected credit loss provision on first time adoption of IFRS 9 was calculated at €1.6 Mio with the impact taken to retained earnings. The expected credit loss at year ending 31 December 2018 was €1.0 Mio.

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

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

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

The following table shows reconciliation of the opening balance to the closing balance of the loss allowance by class of financial instrument. All exposures are in Stage 1, except for the ones mentioned in Stage 2 explicitly. No exposures in Stage 3 existed in 2018.

	Loans and advances	of which Stage 2	Investment securities	Total	of which Individual
At 1 January	1,506	*1,343*	59	1,565	1,565
Increase due to origination	237	*47*	90	328	328
Decrease due to de-recognition	(857)	*(654)*	(13)	(870)	(870)
Change in credit risk	(68)	*(74)*	24	(44)	(44)
Net re-measurement	(19)	*1*	(6)	(25)	(25)
Foreign exchange and other	17	*(44)*	3	21	21
At 31 December	847	*629*	159	1,006	1,006

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

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

Individually assessed allowances

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

BNY Mellon SA/NV has recorded an individually assessed allowance of €1.0 Mio in 2018 (2017: € nil).

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

BNY Mellon SA/NV has not recorded any allowance on a collective basis in 2018 (2017: € nil).

28.2.9. Commitments and Guarantees

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

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

28.2.10 Regulatory and Economic Capital Requirements

Capital requirement for credit risk Pillar 2 (covering credit risk and intraday credit risk) resulted in an amount of € 258 Mio (2017: € 292 Mio), versus the Pillar 1 calculation of €208.8Mio (2017: € 208 Mio).

28.3. Liquidity Risk and Funding Management

28.3.1. Source of Risks

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

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

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

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

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

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

28.3.2. Liquidity Risk Management Framework

Responsibility for strategy, policies and monitoring

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

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

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

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

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

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

Stress testing

Liquidity stress testing is conducted at the BNY Mellon SA/NV consolidated level. The purpose of liquidity stress testing is to examine BNY Mellon SA/NV's ability to survive a range of plausible but extreme increasingly severe liquidity stress scenarios and adverse funding conditions in line with Art. 98 - 100 of the EU Directive 2013/36/EU as well as recommendations laid down in EBA/GL/2014/13 Guidelines on common procedures and methodologies for the supervisory review and evaluation process (EBA SREP - Guideline, Titles 8 and 9).
BNY Mellon SA/NV prepares liquidity stress testing under a currency specific model with results reviewed and approved by the Liquidity Stress Test Oversight Team and Belgium ALCO. The aim of the exercise is to identify areas of vulnerability, plus circumstances, factors that might cause the firm to fail from a liquidity stand point.

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

2018	Overnight	On demand	Less than a week	Up till 3 months	3 months 1 year	1 year- 5 years	Over 5 years	Gross nominal inflow/ (outflow)	Book Value
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Non derivative liabilities									
Deposits	—	21,289,523	64,372	—	—	—	—	21,353,895	21,353,895
Deposits from central banks	—	585,458	—	—	—	—	—	585,458	585,458
Subordinated liabilities	—	—	—	15,121	14,935	109,397	742,062	881,515	358,755
Other financial liabilities	—	—	—	—	—	—	—	—	—
	—	**21,874,981**	**64,372**	**15,121**	**14,935**	**109,397**	**742,062**	**22,820,868**	**22,298,108**

2017	Overnight	On demand	Less than a week	Up till 3 months	3 months 1 year	1 year- 5 years	Over 5 years	Gross nominal inflow/ (outflow)	Book Value
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Non derivative liabilities									
Deposits	—	28,975,315	2,767,165	—	—	—	—	31,742,480	31,742,480
Deposits from central banks	—	860,068	—	—	—	—	—	860,068	860,068
Subordinated liabilities	—	—	—	15,182	14,935	120,466	749,509	900,092	358,734
Other financial liabilities	—	—	—	—	—	—	—	—	—
	—	**29,835,383**	**2,767,165**	**15,182**	**14,935**	**120,466**	**749,509**	**33,502,640**	**32,961,282**

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

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

28.4. Market Risk

28.4.1. Source of Risks

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

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

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

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

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

28.4.2. Market Risk Management Framework

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

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

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

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

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

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

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

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

28.4.3. Market Risk – Non-trading

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

Interest rate risk framework

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

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

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

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

IRRBB capital requirement calculation, and the introduction of a monthly stress testing process for the investment portfolio.

Sensitivity analysis

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

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

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

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

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

Description	Board Limit		Belgium ALCO Guideline		Actual (31-12-2018)	
	2018	2017	2018	2017	+	-
+/-200 bps EVE change / Total Reg capital	+/-20%	+/-20%	+/-16%	+/-16%	-5.06%	-0.35%
+/-200 bps EVE change	+/-15%	+/-20%	+/-12%	+/-16%	-4.06%	-0.28%
+/-200 bps NII Sensitivity (12 month forecast)	-40%	-25%	-30%	-20%	-28.86%	-9.95%

Credit spread risk framework

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

28.4.4. Currency Risk

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

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

Currencies exposures before economic hedge

	EUR	GBP	USD	Other	In € '000
31 December 2018					
Total assets	13,248,851	2,349,521	6,858,833	3,443,640	25,900,845
Total liabilities and shareholder's equity	13,340,341	2,348,784	6,823,010	3,388,711	25,900,845
The statement of financial position (net)	**(91,490)**	**737**	**35,823**	**54,930**	**—**
31 December 2017					
Total assets	20,618,083	3,234,662	8,988,947	3,970,424	36,812,116
Total liabilities and shareholder's equity	16,848,002	5,097,940	9,380,330	5,485,844	36,812,116
The statement of financial position (net)	**3,770,081**	**(1,863,278)**	**(391,383)**	**(1,515,420)**	**—**

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

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

Stress Test before economic hedge

Currency	Variation	Conversion rate at closing	Effect on profit before	Effect on equity	Variation	Conversion rate at closing	Effect on profit before	Effect on equity
		2018	2018	2018		2017	2017	2017
			€ Mio	€ Mio			€ Mio	€ Mio
Scenario	1%				1%			
USD	0.0115	1.145	56.46	56.59	0.012	1.2009	58.62	51.2
GBP	0.0089	0.895	15.94	15.99	0.0089	0.8875	34.68	17.87

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

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

28.4.5. Regulatory and Economic Capital Requirements

Capital requirement for market risk Pillar 2 (covering FX, CVA, IRRBB and CSRBB) resulted in an amount of €7 Mio (2017: € 454 Mio), versus the Pillar 1 calculation of €3.5 Mio (2017: € 2 Mio).

28.5. Operational Risk

28.5.1. Source of Risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events (including legal risk but excluding strategic and reputational risk).
Operational risk may arise from errors in transaction processing, breaches of internal control systems and compliance requirements, internal or external fraud, damage to physical assets, and/or business disruption due to systems failures or other events. Operational risk can also arise from potential legal or regulatory actions as a consequence of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations.

28.5.2. Operational Risk Management Framework

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

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

BNY Mellon SA/NV‘s ORMF relies on a culture of risk awareness, a clear governance structure and, Operational Risk policies and procedures, which define the roles and responsibilities of the First, Second and Third Line of Defense. These policies and procedures complement each other to ensure that the Operational Risks of the business are effectively identified, managed, mitigated (where possible) and reported to the appropriate governance committees on a monthly basis.

BNY Mellon SA/NV uses the ORMF to capture, analyze and monitor its Operational Risks. The tools used to manage the Operational Risks of the business are mandated through individual Operational Risk Polices and are prescribed through the enterprise Operational Risk program, assessment systems and related processes. Regional Committees such as the EMEA Senior Risk Management Committee also monitor and incorporate the material risks in forming its regional risk assessment.

BNY Mellon SA/NV utilizes comprehensive policies and procedures designed to provide a sound operational environment. The Corporate Operational Risk Policies are reviewed and enhanced on an ongoing basis, and adopted by all businesses/Legal Entities including BNY Mellon SA/NV. Business Risk partners oversee the activities undertaken in each of the business lines, with oversight from a Legal Entity point of view through the LERO. Besides Business Risk partners and LEROs, other internal functions also ensure that processes are in place to support the sound Operational Risk management of the business.

28.5.3. Regulatory and Economic Capital Requirements

Capital requirement for operational risk Pillar 2 (using an internal hybrid model) resulted in an amount of € 298 Mio (2017: €150 Mio), versus the Pillar 1 calculation of €93.5 Mio (2017: €89 Mio).

29. Capital

BNY Mellon SA/NV maintains an actively managed capital base to cover risks inherent to the business. The adequacy of BNY Mellon SA/NV's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the NBB in supervising BNY Mellon SA/NV. During the past year, BNY Mellon SA/NV had complied with its externally imposed capital requirements. Please refer to point 28.1.4 for additional comments on excessive risk concentration.

29.1. Capital Management

According to Pillar II of the Basel principles, banks have to perform their own evaluation of the economic capital and to conduct stress tests in order to assess their needs in own funds in case of a downturn in the economy. This pillar has the effect of structuring the dialog with the NBB on the capital adequacy level adopted by the credit institution.

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), BNY Mellon SA/NV defined measurement methods for its economic need for capital as well as management and control methods to encompass its risk policies. Furthermore, stress test scenarios are applied, e.g. economic downturn scenarios as well as idiosyncratic scenarios. These tests conclude that BNY Mellon SA/NV is sufficiently capitalized to encompass most of the scenarios. Where needed, additional capital requirement were calculated on the basis of the stress test. The difference between the economic capital and the regulatory capital incorporates the margin ensuring that the capital level of BNY Mellon SA/NV is sufficient at all times. The latter is in function of the risk profile and of the risk aversion of BNY Mellon SA/NV.

Regulatory capital

	2018	2017
	€ Mio	**€ Mio**
Qualifying Core Tier1 capital	2,972	3,207
Qualifying Tier1 capital	—	—
Total qualifying Tier 1 capital	2,972	3,207
Deductions	(19)	(432)
Total qualifying Tier 2 capital	346	346
Total capital	**3,299**	**3,121**
Total Risk Exposure Amount	**3,822**	**3,741**
Risk weighted exposure amount for credit risk	**2,610**	**2,604**
Risk exposure amount for foreign exchange risk		**—**
Risk exposure amount for credit valuation adjustment (CVA)	44	28
Risk exposure amount for operational risk	**1,168**	**1,109**
Capital Ratios		
Core Tier 1 capital ratio	77.3%	74.2%
Tier 1 capital ratio	77.3%	74.2%
Total capital ratio	86.3%	83.4%
Leverage ratio (fully phased-in)	10.6%	7.2%

Regulatory capital consists of qualifying core Tier 1 capital, which comprises the paid up share capital, share premium, retained earnings, including current year profit and filtering out the valuation reserves, less goodwill and other intangibles. The Board has formally adopted a (non-)dividend policy by which all profits are systematically carried forward and recommended the same for approval to the shareholders' meeting. For risk weighted exposure amount for credit risk, the standardized approach is used. Certain adjustments are made to IFRS-based results and reserves.

During the second quarter of 2015, BNY Mellon SA/NV implemented the Master Netting Agreement covering the netting of placements and deposits with BNY Mellon Corporation, as an eligible form of credit risk mitigation under the capital requirements regulation (CRR) for regulatory reporting purpose.

30. Subsequent events

No subsequent events to report other than the ones noted in the section 5 of the Board of Directors' report.

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