



Investment Management Europe Holdings Limited

Pillar 3 Disclosure

December 31, 2018

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1 Introduction

The Bank of New York Mellon (BNY Mellon) is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As at December 31 2018, BNY Mellon had \$33.1 trillion in assets under custody and/or administration, and \$1.7 trillion in assets under management.

This Pillar 3 disclosure relates to BNY Mellon Investment Management Europe Holdings Limited ('IMEH') – a holding company for BNY Mellon EMEA-based investment management firms - and is published in accordance with the requirements of the Financial Conduct Authority ('FCA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3). Financial Conduct Authority ('FCA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3). Pillar 3 disclosures are made in respect of the consolidation group headed by IMEH.

This disclosure is made annually. The company will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy, and information about risk exposure and other items prone to rapid change.

This disclosure was approved for publication by the Board of Directors (hereafter the 'Board') on 12 July 2019 and published on The Bank of New York Mellon Corporation group website (www.bnymellon.com), in the section Investor Relations, Financial Reports, Other Regulatory.

1.1. Purpose of Pillar 3 Disclosure

The EU Capital Requirements Directive (CRD) is the genus of the FCA's prudential rules and establishes a risk sensitive approach to capital management, which is comprised of three pillars:

Pillar 1 - Minimum capital requirement: Establishes rules for the calculation of minimum capital for credit risk, counterparty credit risk, market risk and operational risk and capital resources requirements

Pillar 2 - Supervisory review process: An internal discipline to evaluate the adequacy of the regulatory capital requirement under Pillar 1 and other non-Pillar 1 risks. This pillar requires the FCA to undertake a supervisory review to assess the robustness of IMEH's internal assessment and its capital requirements.

Pillar 3 - Market discipline: complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to gauge the capital adequacy of individual financial institutions.

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content e.g., disclosure about risk management practices and capital resources at year-end.

2 Scope of Application

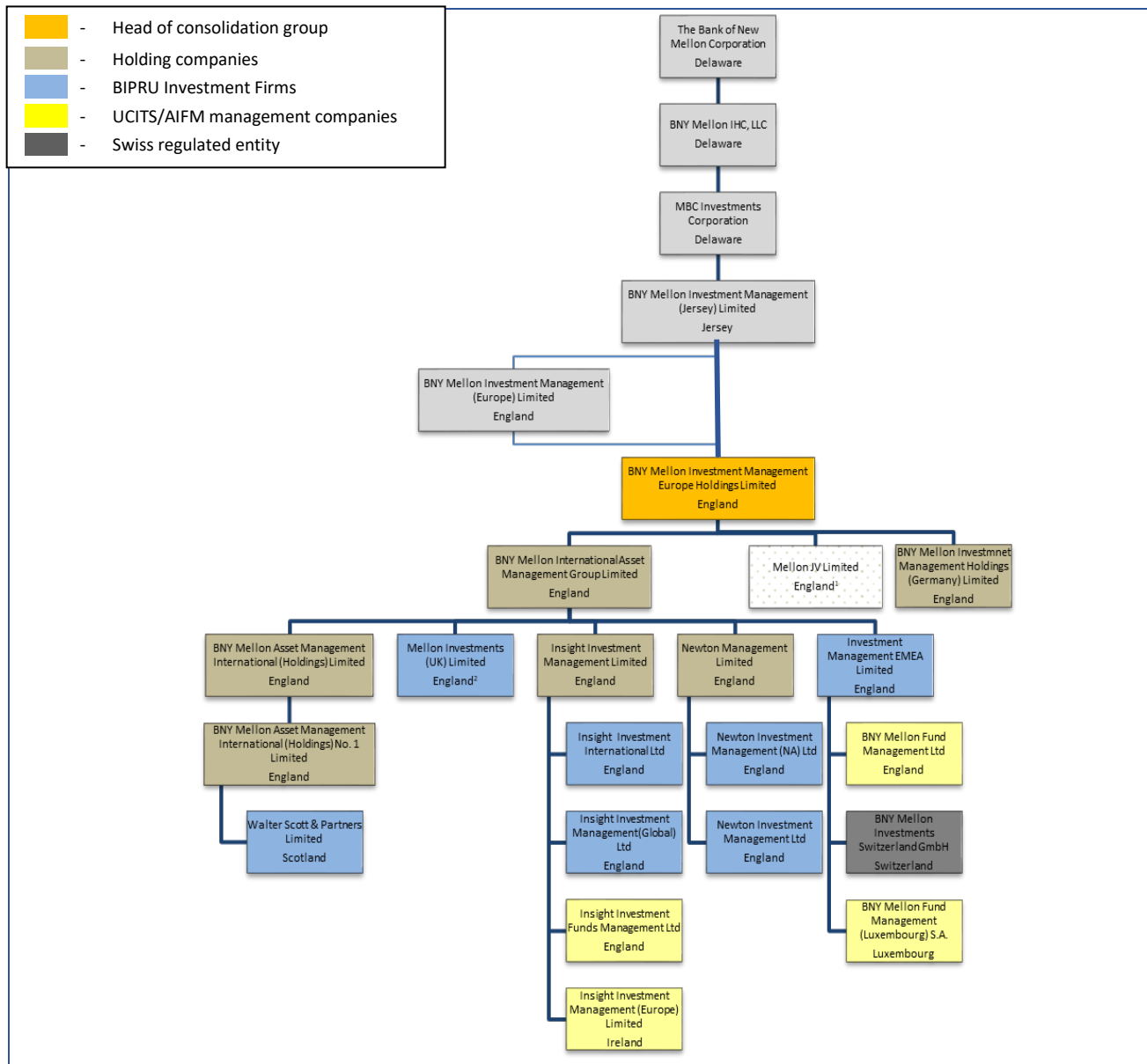
2.1 Company Description

The IMEH group forms the EMEA arm of BNY Mellon's global asset management business. In common with the global strategy, each of the Investment Firms acquired or established operates with a significant degree of operational autonomy. The strategy of the various subsidiaries is decided by the individual Boards. Through the appointment of senior management to the individual Boards, the Group have input into and oversight of the on-going development and assessment of that strategy.

The following regulated entities ('Investment Businesses') are fully consolidated subsidiaries:

- BNY Mellon Investment Management EMEA Limited ('IM EMEA')
- BNY Mellon Fund Management Limited
- BNY Mellon Investments Switzerland GmbH
- BNY Mellon Fund Management (Luxembourg) S.A.
- Insight Investment Management Limited, comprising Insight Investment Management (Global) Limited, Insight Investment Funds Management Limited, Insight Investment Management (Europe) Limited and Insight Investment International Limited (formerly Pareto Investment Management Ltd)
- Newton Management Limited, comprising Newton Investment Management Limited and Newton Investment Management (North America) Limited
- Mellon Investments (UK) Limited
- Walter Scott & Partners Limited

Figure 1: BNYM IMEH Corporate Structure at 31 December 2018



¹ Mellon JV Limited is in liquidation

² Standish Asset Management (UK) Limited changed its name to Mellon Investments (UK) Limited on 2 January 2019

3 Risk Management Objectives and Policies

3.1 Risk Management Framework

Each of the Investment Businesses is operated as a discrete entity and the Board and executive team members have a high degree of knowledge about their business and are very close to the day-to-day risk management and other associated issues such as trading, compliance and staff management. The regulated Investment Businesses' Boards have primary responsibility for both the management and the oversight of risks together with the quality and effectiveness of risk management, compliance and regulatory frameworks in their firms. They meet at least on a quarterly basis and consider

reports and issues escalated by the delegated groups and committees within their business. In case of IM EMEA, Insight, Newton, BNY Mellon Fund Management Limited, Walter Scott & Partners and Mellon Investments UK each has appointed Independent Non-Executive Directors to the Boards of the Regulated entities.

Risk Management culture is centred on the Three Lines of Defence with Risk Management being the second and Internal Audit the third line of defence. Within the EMEA Investment Management business, the EMEA and LatAm Investment Management Head of Risk and Compliance oversees the management of risk through Risk Managers operating in the Investment Businesses.

3.2 Scope and Nature of Risk Reporting Systems

BNYM Investment Management is a global business with global oversight arrangements. The global Investment Management Risk Committee (IMRC) meets monthly in New York. The IMRC is chaired by Mitchell Harris – the Investment Management CEO - and the membership includes representatives from each of the BNYM IM regions. The IMRC is responsible for the management of risk across the entire IM business.

The IMRC has set a risk appetite for the Global Investment Management business and each Investment Business has established its own risk appetite within the overall global tolerance and framework. Risk metrics exist at every level of the stated risk appetite to ensure and report, both at an Investment Business level and globally, that risks are being managed with agreed limits.

All Investment Businesses have a Risk & Compliance Committee. These meet at least quarterly, but in practice tend to be monthly, and commonly comprise risk & compliance, business line management, finance and representatives from Central Risk, Compliance, Audit and Legal. Escalation guidelines exist to ensure appropriate escalation. In addition, depending on the size and business activities, some Investment Businesses have senior management, investment, credit and other committees.

Notwithstanding the autonomy and responsibility of the individual Investment Businesses, each of them adopts a common overall risk framework in line with global BNYM policy standards. This helps to ensure thoroughness of risk management activities, consistency of approach, and commonality in escalation to the IMRC. The elements of the risk management framework are:

3.3 Risk Appetite Statement

An overarching Risk Appetite Statement (RAS) has been prepared at the Global Investment Management business level. Each business within the consolidated IMEH Group has and maintains a local RAS including the levels of risk that it has determined it will accept, and how those levels will be monitored and reported. Although each business has the autonomy to propose any level of risk appetite that its Board considers appropriate, any levels of risk which exceed the IM accepted levels of risk require approval by the IMRC.

3.4 Risk and Control Self-Assessment

Each business assesses the risks associated with its key business processes. Detailed process driven risk assessments consider all factors of the operation of each business. Assessments consider the frequency and severity of operational losses, performance of key risk indicators, emerging risks, audit and regulatory findings. In the event a control is deemed as 'Designed Effectively/ Operating Ineffectively' or 'Designed Ineffectively/ Operating Ineffectively' the risk owner or their designee documents a description of the Control Gap and Action Plan to mitigate the control inefficiency.

3.5 Key Risk Indicators

Key Risk Indicators (KRIs) are used by business lines to evaluate control effectiveness and residual risk within a business process. Material risks are monitored by appropriate KRIs which relate directly to key risks identified in the RAS. The business lines use the corporate KRI process to monitor changes in the probability of the high risks materialising, and to ensure that appropriate actions are taken. KRIs are reported on a monthly basis or quarterly basis.

3.6 Operational Risk Events

Significant events of \$10k or greater and all near misses must be recorded on the Risk Management Platform as soon as practicable but not later than within 30 calendar days of detection. Sector Operational Risk Managers may grant an extension at their discretion. Significant Events greater than USD \$50,000 must be elevated and reported to Senior Management within 7 calendar days of detection and include the best available information at that point in time. A near miss with a notional or transactional value greater than \$100 million should be elevated to Senior Management on detection day.

3.7 High Level Assessment

On a quarterly basis a high level risk assessment (HLA) is carried out at the Investment Management level that covers all the firms in the IMEH Group. HLA provides a qualitative assessment of the inherent risk, quality of control, residual risk and direction of risk for Operational Risk Basel loss type categories and certain sub-type categories.

3.8 Emerging and External Risks

Emerging and External Risks are identified according to the assessment of the inherent risk, quality of controls in place to mitigate risk and likelihood to identify residual risk. Emerging and External Risks are rated as 'High', 'Moderate', and 'Low' with direction anticipated.

3.9 Stress Testing

Stress testing is performed at the IMEH Consolidated level to ensure consistency, and supplemented by Investment Business level stress testing to deal with any idiosyncratic risks. The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration. Sources of risk information used to assist scenario development include Emerging and External Risk reporting, financial sensitivity analysis, outputs from the risk assessment tools, operational risk trends, macro-economic data, financial news, client management information or general business statistics.

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by IMEH's and Investment Businesses' legal entity boards for Investment Business level tests.

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

4 Key Risk Areas

4.1 Operational Risk

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

Across the IMEH group the level of operational risk is managed through rigorous operating policies, procedures and controls set by the Investment Businesses' Boards and implemented by Risk Management.

Business Managers in each Investment Business are responsible for Risk Control Self Assessments ("RCSA"), which include identification of the risks associated with key business processes, identifying and measuring the effectiveness of controls in place to manage risk and for remediation of any weakness. RCSAs are reviewed on at least an annual basis by Business Management. The Risk Management teams have an independent oversight role in this process.

Model Risk constitutes an integral part of BNYM risk management framework and is managed at the legal entity level by Business Managers. The Investment Businesses use models as a complement to a qualitative investment or business judgement, or as primary drivers of investment decisions. All models are subject to the BNYM Enterprise Model Risk Management Policy which governs the process of development, approval and validation of models.

The Investment Businesses' Boards monitor operational risks and the appropriateness of controls through the Risk & Compliance Committee and independent reporting from Risk Managers. This requires the Investment Businesses to regularly update their RCSAs, as well as monthly KRIs and prompt reporting of any significant financial impacts as a result of errors.

Risk Management performs monitoring appropriate to the business and identified risks, which includes KRI reporting, significant event analysis and ad hoc reviews. Moreover, the key elements of the RCSA, internal control environment, monitoring and governance arrangements are routinely reviewed and challenged by the Risk & Compliance Committee.

4.2 Market Risk

Market risk is the risk to a firm's financial condition arising as a result of adverse movements in the markets, such as foreign currency exchange rates, interest rates and equity and commodity prices.

None of the IMEH group regulated entities are authorised to trade on their own account or to underwrite issues of financial instruments. Market risk capital arises due to non-trading exposures in non-functional currencies, and when investments in equities and in collective investment undertakings (CIU) are held to launch new products or as investments (e.g. holdings in cash funds). These are accounted for at their market value.

4.3 Interest Rate Risk in Non Trading Book

Interest Rate Risk (IRR) is the risk associated with changes in interest rates that affect net interest income (NII) from interest-earning assets and interest-paying liabilities. For regulatory purposes, interest rate risk is monitored in the trading portfolio and non-trading book separately. IRR exposure in the non-trading book arises from on and off-balance sheet assets and liabilities, and changes with movements in domestic and foreign interest rates.

IMEH group does not have a significant exposure to IRR although it continues to monitor it through the financial control framework which will identify any change in the exposure.

4.4 Credit Risk

Credit risk is the risk of default from counterparties or clients for deposits, loans, commitments, securities and other assets where the realisation of the value of the asset is dependent on its ability to perform.

Assets subject to credit risk for the IMEH group typically comprise deposits with BNY Mellon London Branch, deposits with external banks, investments in money market funds and fee receivables from clients. Cash deposits, typically the Investment Firm's accumulated profits, are held under a variety of arrangements including deposits with BNY Mellon (London Branch). However, each MFIFD Investment Firm holds a liquidity buffer equivalent to at least twice the calculated Fixed Overhead Requirements (FOR), calculated under FCA Rules, outside the BNY Mellon Group – insulated from the risk of BNY Mellon failure.

4.4.1 Credit Risk Exposure

The following credit risk exposure tables (1) to (4) summarise the credit exposure for IMEH group by exposure class, credit quality steps, geographic area and residual maturity. All data as at 31 December 2018.

Table 1: Standardised gross credit exposure by exposure class

Exposure Class (£000s)	Exposure at Default (EAD) pre Credit Risk Mitigation (CRM)		Average EAD pre CRM		Standardised Credit Risk Capital Requirement	
	2018	2017	2018	2017	2018	2017
Central governments or central banks	-	-	-	-	-	-
Institutions	1,422,663	2,178,940	1,335,382	2,101,681	22,763	34,863
Corporates	672,800	459,487	707,481	523,028	36,959	37,342
Short term claims on Institutions and Corporates	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-
Other	32,013	29,906	31,777	17,576	2,561	2,393
Total	2,127,476	2,668,333	2,074,640	2,642,285	62,283	74,598

Table 2: Standardised Gross Credit Exposure by Geographic Area

Exposure Class (£000s)	Europe		Americas		Africa		Asia Pacific		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Central governments or central banks	-	-	-	-	-	-	-	-	-	-
Institutions	1,421,474	2,178,358	1,190	582	-	-	-	-	1,422,663	2,178,940
Corporates	662,907	445,316	8,437	9,206	-	-	1,456	4,964	672,800	459,487
Short term claims on Institutions and Corporates	-	-	-	-	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-	-	-	-	-
Other items	32,013	29,906	-	-	-	-	-	-	32,013	29,906
Total	2,116,393	2,653,581	9,627	9,788	-	-	1,456	4,964	2,127,476	2,668,333

Table 3: Standardised Gross Credit Exposure by Residual Maturity

Exposure Class (£000s)	Less than 3 months		3 months to 1year		Over 1 year or unidentified		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Central governments or central banks	-	-	-	-	-	-	-	-
Institutions	1,422,663	2,178,940	-	-	-	-	1,422,663	2,178,940
Corporates	672,800	459,487	-	-	-	-	672,800	459,487
Short term claims on institutions and Corporates	-	-	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-	-	-
Other items	-	-	32,013	29,906	-	-	32,013	29,906
Total	2,095,463	2,638,427	32,013	29,906	-	-	2,127,476	2,668,333

4.4.2 Past-Due Assets and Provisions

As at December 31, 2018, IMEH or any of the underlying Investment Businesses had no material assets past-due greater than 90 days. Neither IMEH nor any of the underlying Investment Businesses incurred any material write-offs of bad debts or make any recovery of amounts previously written off during the year to December 31, 2018.

4.5 Counterparty Credit Risk

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

The IMEH group computes counterparty credit risk capital at Pillar 1 using the Counterparty Credit Risk (CCR) mark-to-market method as per the FSA's BIPRU 13.4. Although the group has no trading book, as at 31 December 2018 IMEH had some derivative positions which it had entered into in order to hedge the impact on its revenue of market and economic factors. The positions are swaps and index futures with high credit quality institutions attracting, under the simplified approach to credit risk, a 20% risk weight.

Table 4: Counterparty Credit Risk

Type of a derivative position	Weighting	Risk Weighted Assets	CCR
Interest swap	20%	433,776	34,702
Equity swap	20%	262,383	20,991
Inflation swap	20%	3,765,020	301,202
Equity Index Futures	20%	0	0
FX futures	20%	0	0
Total	-	4,461,180	356,894

IMEH may be exposed to wrong way risk due to some derivative positions it entered.¹ This risk can be associated with financial collateral, or with transactions where the underlying trade or secured loan is associated or correlated with the creditworthiness of the counterparty. In IMEH Group wrong way risk is managed at the legal entity level in line with the BNYM Policy on Wrong Way Risk; in particular counterparties and transactions are subject to country limits and to credit limits by product type and there is an escalation procedure in place for any trades that fall outside of these criteria.

4.6 Liquidity Risk

Liquidity Risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The IMEH group currently has sufficient cash and current assets to meet its liabilities when they fall due; current and projected cash deposits are able to cover current and long term liabilities. Management fees provide the major source of funds with payment of staff and administrative expenses being the principal uses of funds. Net operating cash flows are projected to be positive and no financing requirements are anticipated. There is minimal risk to the source and use of the funds as there are no deposit-taking activities or loans to clients, and there are no derivatives or off-balance sheet exposures apart from FX forward contracts or other hedges for risk management purposes. Other exceptional activities such as acquisitions are funded either through existing cash resources or from the BNY Mellon group through debt and/or equity.

¹ Wrong way risk exists when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty itself.

4.7 Outsourcing Risk

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

Each Investment Management Business has implemented an Outsourcing Policy which details certain minimum standards that should be adopted when considering or dealing with a service and/or activity that is outsourced to another legal entity, either within the BNYM Group or to an external provider and establishes a framework for evaluating and analysing outsourcing projects.

4.8 Reputational Risk

Reputational risk is the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators.

In addition to the reputational contagion, reputational risk to the Investment Management brand will present itself as a loss of confidence by its clients. Consistent poor performance over a period of time, operational events that occur without appropriate remedy and are perceived by clients to be systemic weaknesses in controls, or a loss of key investment managers are all possible reasons for a loss of confidence. It is recognised that IMEH does not conduct any operational activity to generate risks in its own right; therefore the risk is that such situations could occur within the Investment Businesses.

5 Capital Resources and Requirements

IMEH and its subsidiaries that fall within the scope of BIPRU regime are required to calculate their Pillar 1 capital requirements as larger of Fixed Overhead Requirement (FOR) or the sum of credit and market risk capital resource requirements.

5.1 Available Capital Resources

The following table summarises the capital resources for IMEH as at 31 December 2018

Table 5: Capital Resources

Capital Resources (£000s)	IMEH	
	2018	2017
Tier 1 Capital		
Called up Share Capital	2,484,730	2,484,730
Retained Earnings and Other Reserves	14,452	496,182
Total Tier 1 Capital	2,499,182	2,980,912
Deductions from Tier 1 Capital		
Intangible Assets	-1,308,046	-1,301,375
Total Tier 1 Capital After Deductions	1,191,136	1,679,537
Total Tier 2 Capital	-	-
Deductions from Total of Tiers 1 and 2 Capital	-	-
Material Holdings	-	-
Total Capital Resources	1,191,136	1,679,537

5.2 Pillar 1 Capital Requirements

IMEH calculates its Pillar 1 capital resource requirements as the larger of Fixed Overhead Requirement (FOR) or the sum of credit risk and market risk capital resource requirements.

The following table details the Pillar 1 capital requirements by exposure class for IMEH as at 31 December 2018/2017.

Table 6: Pillar 1 Capital Requirements by Risk Type

Capital Requirements and Adequacy (£000s)	2018	2017
Credit Risk Capital requirements	62,283	74,598
Counterparty Risk Capital Component	357	369
Market Risk Capital Requirement	2,283	1,934
Total Market Risk and Credit Risk Requirement	64,923	76,901
Fixed Overhead Requirement	80,992	74,809
Pillar 1 Capital Requirement	80,992	76,901
Total Capital Resources	1,191,136	1,679,537
Capital Surplus	1,110,214	1,602,636
Total Capital Resources / Total Pillar 1 Capital Requirements	1472%	2184%

5.3 Pillar 2 Capital Requirements

Pillar 2 Capital Requirements are quantified as part of the Internal Capital Adequacy Assessment Process (ICAAP). The main purpose of Pillar 2 is to identify risks pertinent to IMEH operations not yet covered under Pillar 1 and to determine if it is required to hold any additional capital because of these risks.

The risks assessed under Pillar 2 are credit and market risk, operational risk, interest rate risk, business risk and other risks relevant to balance sheet items. Operational risk capital requirement is derived from a model-based assessment which uses IMEH Investment Businesses' internal loss data supplemented with loss data of other BNYM Investment Businesses and a forward-looking scenario analysis. Given the non-complex nature of IMEH credit and market risk, Pillar 2 requirements are calculated on the same basis as Pillar 1 requirements using the standardised methodology. Business risk is considered by applying a severe market downturn scenario to existing balances and financial forecasts over a five year period.

In addition IMEH performs an orderly wind-down analysis based on a uniform scenario applied to all firms within the consolidation group.

The overall internal capital adequacy is determined by taking the highest of Pillar 1, Pillar 2 or orderly wind-down scenario. Where Pillar 2 or orderly wind-down analysis result in a higher capital determination than Pillar 1, IMEH holds additional capital at the consolidated level and at the level of regulated entities forming the IMEH Group.

6 Remuneration Disclosure

6.1 Governance

The governance of remuneration matters for BNYM and its group entities, including BNY Mellon Investment Management Europe Holdings Limited (“IMEH”) and its businesses, which is regulated by the Financial Conduct Authority (“FCA”), is overseen by four committees, each with separate responsibilities in respect of remuneration as summarised below:

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

Compensation Oversight Committee of BNY Mellon (“COC”) is responsible for ensuring compensation plans are based on sound risk management, it provides governance and risk oversight and advises the HRCC on any compensation risk issues. The members of the COC are senior members of BNY Mellon management, including the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer and the Head of Compensation & Benefits. The Chief Executive Officer is responsible for the funding and design of incentive plans. All new material incentive plans, material changes to existing incentive/sales plans and funding accrual decisions are subject to the review and approval of the CEO and CFO prior to the oversight by the HRCC

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

Investment Business Remuneration Committees have delegated responsibility for remuneration matters from the relevant Boards of businesses within the IMEH group. In consultation with the COC, they are responsible for remuneration policy decisions and the approval of year-end compensation awards for its respective regulated staff members. This process includes formal input from Risk and Compliance when determining the amount of any variable incentive awards.

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

6.2 Aligning Pay with Performance

The IMEH businesses align their compensation philosophy with BNY Mellon and offer a total compensation opportunity that supports its values; client focus, integrity, teamwork and excellence, which pays for performance, both at the individual and corporate level. The businesses value individual and team contributions and rewards based on how both contribute to business results. In support of this philosophy, variable compensation is regularly used as a means of recognising performance.

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

compensation program, and variable compensation is in the form of annual and/or long-term incentives, and where appropriate granted over equity to align employee remuneration with that of shareholder growth.

6.3 Fixed Remuneration

Fixed remuneration is composed of (i) salary, and (ii) any additional non-performance related amounts paid as a result of contractual obligations or applicable law, or as a result of market practice,

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

Employees who have accepted to be a director of another of BNY Mellon's legal entities are not remunerated in their capacity as a director. Independent directors of BNY Mellon only receive fixed remuneration, as disclosed in the annual Proxy Statement to shareholders.

6.4 Ratio between Fixed and Variable Pay

The IMEH group is supervised on a consolidated basis by the FCA and complies with all applicable remuneration requirements. The MIFID Investment Firms within the IMEH group are all within the scope of the BIPRU Remuneration Code. As such they apply the provisions of the BIPRU Remuneration Code in line with the guidance on proportionality applicable under the FCA's SYSC 19C rule book. BNYM Fund Management (Luxembourg) SA is covered by the UCITS and AIFMD regulations as implemented by the CSSF. BNYM Fund Management Ltd is a FCA regulated 'Common Portfolio Management' firm and is therefore covered by the UCITS and AIFMD regulations as implemented by the FCA through its SYSC 19B and SYSC 19E rule books.

6.5 Variable Compensation Funding and Risk Adjustment

IMEH staff are eligible to be awarded variable compensation, but have no entitlement to such award which are discretionary in nature.

In general the total compensation pool for each of the IMEH businesses, including any variable incentive pool, is based on the profitability of the business with the potential for adjustment by the COC on the basis of a number of factors including risk management.

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

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

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

The deferred component is intended to align a portion of the variable compensation award with the management of longer-term business risk. The deferred compensation component is generally awarded in the form of either BNY Mellon restricted stock units, deferred cash award invested in an appropriate vehicle which is considered suitable, IMEH business equity or any combination determined appropriate from time to time.

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

6.6 Deferral Policy and Vesting Criteria

For more senior-level employees, a portion of variable compensation will be deferred, under ordinary circumstances for a period of at least three years (albeit such compensation may be deferred on a pro-rata basis for alternative periods), and will be subject to the performance of either (or both) BNY Mellon or the respective business. The deferred component of the variable compensation award is usually delivered as either deferred cash award invested in an appropriate vehicle which is considered suitable, IMEH business equity or any combination determined appropriate from time to time. The percentage of the variable compensation award to be deferred depends on the level of the position, regulatory requirements and the amount of the award.

6.7 Variable Remuneration of Control Function Staff

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

6.8 Quantitative Disclosures

The tables below provide details of the aggregate remuneration of senior management² and Code Staff for the IMEH group for the year ended 31 December 2018.

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

Table 7: Aggregate Remuneration Expenditure for Code Staff in 2018 by Business

This table shows the total aggregate remuneration expenditure for Code Staff by business for 2018.

	IMEH		
	Investment Management	Other ³	Total
Total remuneration (£000s)	84,420	0	84,420

² Senior Management is comprised of Code Staff categorized as "Senior Managers" who carry out a senior management function as determined by the relevant regulators.

³ Includes all support functions and general management positions.

Table 8: Aggregate Remuneration Expenditure for Code Staff by Remuneration Type

This table shows the aggregate remuneration expenditure for Code Staff by remuneration type.

	Investment Management		
	Senior management	Other Code Staff	Total
Number of beneficiaries	28	58	86
Aggregate fixed remuneration (£000s) ⁴	5,749	9,395	15,144
Total variable remuneration (£000s)	35,088	35,144	70,232
Variable cash (£000s)	21,017	21,224	42,241
Variable shares (£000s)	14,115	13,920	28,035

Table 9: Total Deferred Variable Remuneration for Code Staff Outstanding from Previous Years

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

	Investment Management		
	Senior management	Other Code Staff	Total
Number of beneficiaries	28	56	84
Total deferred variable remuneration outstanding from previous years (£000s)	35,391	42,937	78,328
Total vested (£000s)	0	0	0
Total unvested (£000s)	35,391	42,937	78,328

Table 10: New Sign-on and Severance Payments

This table shows the number and value of new sign-on and severance payments made during 2018.

	IMEH		
	Senior management	Other Code Staff	Total
Number of sign-on payments awarded	0	0	0
Value of sign-on payments awarded (£000s)	0	0	0
Number of severance payments awarded	0	0	0
Value of severance payments awarded (£000s)	0	0	0
Highest individual severance payment awarded (£000s)	0	0	0

⁴ Fixed Remuneration includes base salary and any cash allowances. Pension contribution is not included.

Table 11: Number of Individuals being Remunerated EUR 1 million or more

This table shows the number of individuals being remunerated €1m or more.

Number of individuals being remunerated ≥ EUR 1m	IMEH
EUR 1m - EUR 1.5m	10
EUR 1.5m - EUR 2m	7
EUR 2m - EUR 2.5m	1
EUR 2.5m - EUR 3m	3
EUR 5.5m - EUR 6m	2
EUR 7.5m - EUR 8m	1
EUR 10m - EUR 10.5m	1



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