Pershing Securities International Limited

PILLAR 3 DISCLOSURE
DECEMBER 31, 2015

BNY MELLON | Invested

Pillar 3 Disclosure Report

December 31, 2015

Table of Contents

1 Overview ... 6
1.1 Background ... 6
1.2 Disclosure Requirements ... 6
1.3 Disclosure Policy ... 6
1.4 Post Year-end Events ... 7
2 Key Metrics ... 7
3 Scope of Application ... 7
3.1 Company Description ... 7
3.2 Core Business Lines ... 8
4 Capital Requirements ... 10
4.1 Calculating capital requirements ... 10
5 Risk Management Objectives and Policies ... 11
5.1 Risk Governance ... 11
5.1.1 Board of Directors ... 11
5.1.2 Regional Risk Governance ... 11
5.2 Risk Management Framework ... 13
5.3 Risk Appetite Statement ... 14
5.4 Stress Testing ... 14
6 Credit Risk ... 15
6.1 Definition and Identification ... 15
6.2 Management of Credit Risk ... 15
6.3 Governance ... 16
6.4 Analysis of past due and impaired exposures ... 16
6.5 Credit Risk Mitigation ... 16
6.5.1 Collateral Valuation and Management ... 16
6.5.2 Wrong-Way Risk ... 16
6.5.3 Credit Risk Concentration ... 17
6.6 Analysis of Credit Risk ... 17
6.7 External Credit Rating Agencies (ECAIs) ... 20
6.8 Credit Valuation Adjustment (CVA) ... 23
7 Market Risk ... 24
7.1 Interest Rate Risk – Non-Trade Book ... 24
8 Operational Risk ... 24
8.1 Operational Risk Management Framework ... 24

9 Remuneration Disclosure 26
9.1 Governance 26
9.2 Aligning Pay with Performance 26
9.3 Fixed Remuneration 26
9.4 Variable Compensation Funding and Risk Adjustment 26
9.5 Ratio between Fixed and Variable Pay 27
9.6 Deferral Policy and Vesting Criteria 27
9.7 Variable Remuneration of Control Function Staff 27
9.8 Quantitative Disclosures 27

List of Tables

Table 1: Capital requirements overview 10

Table 2: Credit Risk Pre and Post Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Exposure Class 17

Table 3: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Geographical Area 18

Table 4: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Counterparty Type 19

Table 5: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Residual Maturity 19

Table 6: Exposures covered by financial and other eligible collateral 20

Table 7: Mapping of ECAIs credit assessments to credit quality steps........ 20

Table 8: Credit quality steps and risk weights........ 21

Table 9: Credit quality step pre CRM by credit exposure class 21

Table 10: Credit quality step post CRM and CCF by credit exposure class........ 22

Table 11: Counterparty credit risk 23

Table 12: Market risk – Standardised Approach 24

List of Appendices

Appendix 1 Liquidity and Other Risks 28
Regulatory and Compliance Risk 28
Reputation Risk 28
Legal Risk 28
Outsourcing Risk 29
Business Risk 29
Concentration Risk 29
Group Risk 29
Model Risk 29
Strategic Risk 30
Country Risk 30
Appendix 2 Glossary of Terms 31

1 Overview

1.1 Background

This document comprises the Pershing Securities International Limited ("PSIL" or "the Company") Pillar 3 disclosures on capital and risk management at 31 December 2015. These Pillar 3 disclosures are published in accordance with the requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to together as CRD IV, which came into effect on 1 January 2014. CRD IV has the effect of implementing the international Basel III reforms of the Basel Committee on Banking Supervision within the European Union The Pillar 3 disclosure requirements are contained in Part Eight of the CRR, in particular articles 431 to 455.

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

1.2 Disclosure Requirements

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

- Credit Risk
- Counterparty Credit Risk
- Market Risk
- Credit Valuation Adjustment
- Securitisations
- Operational Risk

Not all of the above risk and exposure types are relevant to PSIL. In accordance with CRD IV, the Board may omit one or more disclosures if the information provided is not regarded as material.
Accordingly, these Pillar 3 disclosures only focus on those risk and exposure types relevant to PSIL. Furthermore, the Board may omit one or more disclosures if the information provided is regarded as proprietary or confidential.

For completeness, other risks that PSIL is exposed to, but are not covered above, are also discussed in Appendix 1.

1.3 Disclosure Policy

These disclosures were approved for publication by the PSIL's Board of Directors ("the Board") on 14 December 2016.

Disclosure will be made annually based on calendar year end and will be published following the preparation of the Annual Report and Financial Statements. PSIL will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy, and information about risk exposure and other items prone to rapid change.

Disclosures will be published on The Bank of New York Mellon group website (www.bnymellon.com), within the "Investor relations, financial reports, other regulatory filings" section of the Company's website.

1.4 Post Year-end Events

In relation to the assessment and monitoring of economic, political and regulatory risks, the Company is continuing to evaluate the impact of the outcome of the recent referendum in relation to the UK's membership of the EU on the company's business strategy and business risks in the short, medium and long term. In the short term there is no significant impact expected on the Company's business activities, there will be no immediate change in business strategy, and it does not affect the going concern position of the company. Over the course of the expected two year transition period following a notification of intention to leave the EU, the Company will continue to closely monitor developments and will make appropriate changes to the business strategy once the impact of the referendum result on the UK and European financial services industry is more certain.

2 Key Metrics

The following risk metric reflect PSIL's risk profile.

Metrics	PSIL			
	2015		2014	
	€'000s	Ratio	€'000s	Ratio
Common equity tier 1 capital	24,002	139.1%	21,870	133.6%
Total tier 1 capital	24,002	139.1%	21,870	133.6%
Total capital	24,002	139.1%	21,870	133.6%
Risk weighted assets	17,251		16,375	

As can be seen, PSIL is extremely well capitalised with a CET1 capital ratio at the end 2015 of 139.1%.

3 Scope of Application

3.1 Company Description

Pershing Securities International Limited is the Dublin based, wholly owned subsidiary of Pershing Limited, which is, in turn a subsidiary of Pershing Holdings (UK) Limited. Pershing Holdings (UK) Limited is a parent financial holding company incorporated in the UK and is a wholly owned and operationally independent subsidiary of Pershing Group LLC which is, in turn a subsidiary of the Bank of New York Mellon Corporation ("BNYMellon").

When referenced in this document, the term 'PHUK Group' refers to Pershing Holdings (UK) Limited and its subsidiary undertakings.

Pershing Group LLC is engaged in broadly the same business activity as PHUK Group. As at 31 December 2015, Pershing Group LLC had total assets of $32 billion.

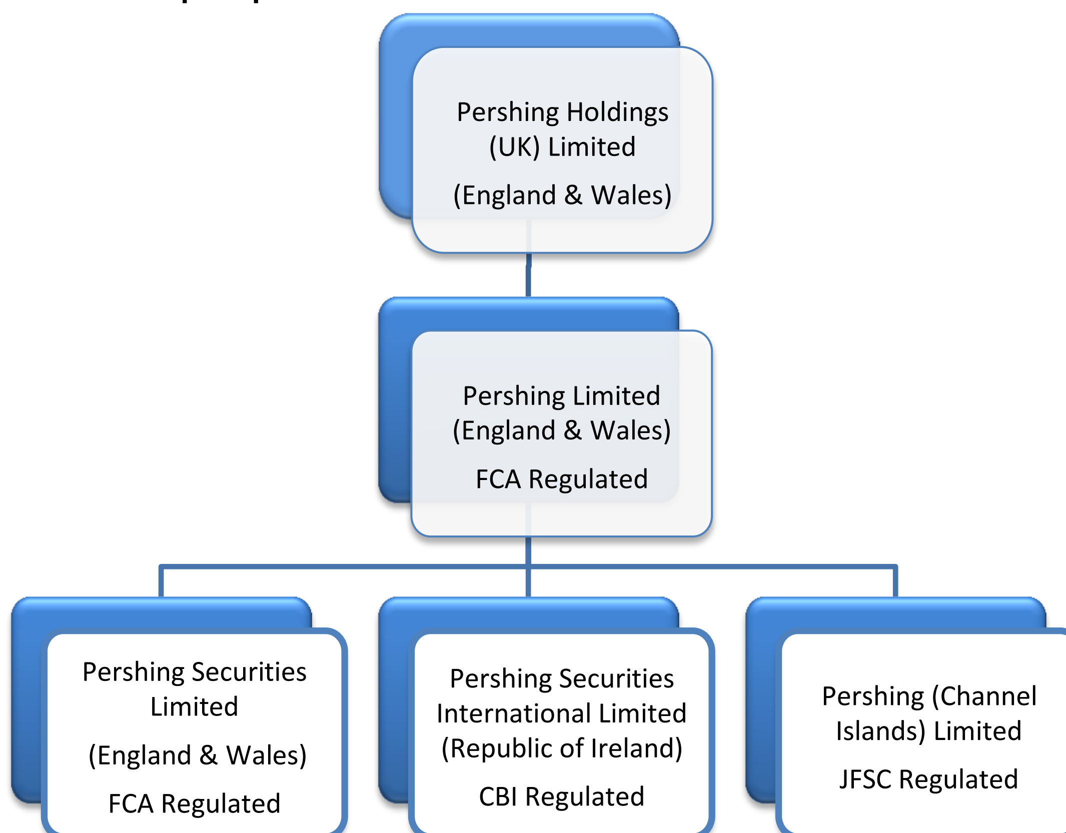
BNYMellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNYMellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As at 31 December 2015, BNY Mellon had $28.9 trillion in assets under custody and/or administration, and $1.6 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

As a full scope investment firm regulated by the Central Bank of Ireland (CBI), PSIL is required to operate under the CBI's Basel III implementation rules, which include the disclosures provided in this document.

There is no current or foreseen material or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings.

The corporate structure of PHUK Group which includes PSIL is illustrated in Figure 1.

Figure 1: PHUK Group corporate structure



3.2 Core Business Lines

The principal activities of PSIL include the provision of a full range of clearing and settlement, investment administration, collateral management, global custody and related services. PSIL functionality provides broker-dealers, asset managers, intermediary firms and financial institutions with a comprehensive range of services and solutions, including retail clearing, institutional global clearing, broker services and execution services (through Pershing Securities Limited).

Having a local presence and also being independently regulated by the Central Bank of Ireland is seen as a competitive advantage. Similarly, being a subsidiary ultimately of BNYMellon, a G-SIFI (Global Systemically Important Financial Institution) is also viewed positively. The PSIL business model inherently carries less balance sheet risk than many traditional financial services firms.

PSIL's business model is split into two main market segments:

Institutional Broker Dealer Services (IBD)

PSIL provides a broad range of financial business solutions to investment banks and broker-dealers. Our multi-asset class solutions combine sophisticated front-end technology with flexible middle and back office capabilities. PSIL can manage and help our clients with the full spectrum of post-trade services, from execution through to settlement and clearing, specialising in Fixed Income and Equities across 40+ markets.

Our clients recognise us as an industry leader in directing them to operate more efficiently by affording them the facility to outsource any, or all, of their trade life-cycle. Our clients leverage upon our

technology, strength and global stability and as such we have become a trusted and independent partner to many financial institutions.

We retain our leadership by investing heavily in our technology, so that our customers can be confident in the knowledge that the functionality and capability of our systems and services will continually meet their industry needs, whilst simultaneously addressing the ever changing regulatory landscape, thereby enabling them to focus on their core business proposition and future proof their corporate positioning.

Wealth and Adviser Solutions (WAS)

PSIL specialises in providing administration and custody services to wealth management professionals. Many of our clients prefer to outsource back and middle office functions to PSIL so they can focus on serving their existing clients and developing new business. Clients benefit from reduced operational costs, PSIL's expertise in meeting regulatory requirements and from holding their clients' assets with the world's largest global custodian.

Clients include banks, wealth managers, family offices, advisers and "consolidator" platforms that provide platform services for smaller advisory firms.

Many wealth management firms are large enough to self-clear their business and most will choose to do this. However, the increasing rate of technological change, transparency in pricing exerting a downward pressure on charges, and the increasing cost of regulatory demands can reduce profit margins and so there is a general industry trend for wealth management firms to consider other ways of working to reduce costs.

Contract basis

Clients contract on a basis appropriate to their business needs, either Model A, B or GlobalClear, as outlined below.

Model A

Model A business provides the outsourcing of settlement and clearing functions by client firms. All settlement accounts are maintained in the name of the client and PSIL has no settlement obligation to any counterparty, except where it is providing a General Clearing Member ("GCM") service. Therefore, in all other cases, PSIL is not exposed to any credit and market risk relating to such activity. PSIL does however have credit exposure as a GCM, as it assumes an obligation to deliver cash and stock to the Central Counterparty ("CCP") and is reliant upon receiving cash or stock from the CCP or client firm.

Model B

The largest portion of PSIL's business is contracted on a Model B basis where we assume the settlement obligations of clients and it is Pershing's name not the clients in the market place. The main risk exposure from this activity relates to credit risk arising from clients failing to meet their corresponding obligations to Pershing. However the actual exposure is generally limited to any adverse mark to market movement in the underlying securities and is mitigated through various techniques and processes, including credit risk monitoring, rights over retained commissions and cash collateral deposits.

GlobalClear

The GlobalClear Model is designed as an intermediate model. The model utilises key Model A components where, for non-GCM trades, PSIL does not assume the settlement obligations of clients as we do under Model B. Clients support these trades on their own balance sheet and PSIL is under no obligation to clear such transactions. GlobalClear also utilises key Model B components where the client uses PSIL's network for clearing of GCM trades and PSIL's settlement network for settlement of GCM and non-GCM transactions. Clients also use PSIL for associated cash and network management.

4 Capital Requirements

PSIL has an Internal Capital Adequacy Assessment Process ("ICAAP") which defines the risks that the PSIL is exposed to, and sets out the associated capital plan which aims to ensure that PSIL holds an appropriate amount of capital to support its business model, through the economic cycle and given a range of plausible but severe stress scenarios. The plan is reflective of PSIL's commitment to a low risk appetite, with no proprietary trading, coupled with a strong capital structure which gives the necessary confidence to our clients.

4.1 Calculating capital requirements

CRD IV allows for different approaches towards calculating capital requirements. PSIL has chosen to use the standardised approach where risk weights are based on the exposure class to which the exposure is assigned and its credit quality. These risk weights used to assess requirements against credit exposures are consistent across the industry.

PSIL's capital requirement relates to credit risk and market risk, as well as to an expenditure-based requirement, the Fixed Overhead Requirement ('FOR'). PSIL's capital requirement is the higher of the sum of the credit risk and market risk requirements and the fixed overhead requirement. The Operational risk amount denotes the balance fixed overhead requirement after subtracting the credit and market risk amount.

Table 1: Capital requirements overview

This table shows the risk weighted assets using the standardised approach and their respective capital requirements (EUR'000s).

Type of Risk	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Credit risk SA*	3,831	6,049	306	484
Counterparty Credit Risk SA*	41	13	3	1
Securitisation Risk in banking book SA*	0	0	0	0
Settlement risk	70	10	6	1
Market risk SA*	170	80	14	6
of which: Foreign Exchange Position Risk	170	80	14	6
Operational risk	17,251	16,375	1,380	1,310
of which: Basic Indicator Approach	0	0	0	0
of which: Standardised Approach	0	0	0	0
of which: Additional Amount due to fixed overheads	17,251	16,375	1,380	1,310
Credit Valuation Adjustment - Standardised method	0	0	0	0
Related to Large Exposure in Trading Book	0	0	0	0
Other risk	0	0	0	0
Capital Requirement (higher of variable capital requirement and fixed overhead requirement)	**17,251**	**16,375**	**1,380**	**1,310**
Total Capital			**24,002**	**21,870**
Surplus Capital			**22,622**	**20,560**

* SA = Standardised Approach

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

5 Risk Management Objectives and Policies

Clients and other market participants need to have confidence that PSIL will remain strong and continue to deliver operational excellence and maintain an uninterrupted service throughout market cycles and especially during periods of market turbulence. PSIL is committed to maintaining a strong balance sheet and this philosophy is also consistent with PHUK Group, Pershing Group LLC and BNY Mellon Corporation as a whole.

Whilst PSIL assumes less balance sheet risk than most financial services companies due to its focus on transaction processing, its business model does give rise to some risk as described below. As a consequence, Pershing has developed a risk management program that is designed to ensure that:

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

5.1 Risk Governance

5.1.1 Board of Directors

The main duty and responsibility of the Board is to define the strategy of PSIL and to supervise the management of PSIL. Whilst acting autonomously and in accordance with its legal and regulatory requirements, the Board also aligns PSIL's strategy to that of its primary shareholder, Pershing Limited. The Board has overall responsibility for the establishment and maintenance of PSIL's risk appetite framework and for the approval of the risk appetite statement. The Board ensures that strategic business plans are consistent with the approved risk appetite.

The Board is also responsible for both the management and the oversight of risks, together with the quality and effectiveness of internal controls, but delegates risk management oversight to general management, supported by the risk management committees. It is also responsible for reviewing, challenging and approving all risk management processes including risk identification and assessment, stress testing and capital adequacy. The various control functions provide further support for the management of risk within the business.

5.1.2 Regional Risk Governance

Pershing shares a common framework of risk management objectives and policies with other subsidiaries of Pershing Holdings (UK) Limited. PSIL's approach to risk management is to ensure that all material risks are defined, understood and effectively managed according to well-designed policies and controls. Due to reasons of operational efficiency, PSIL has outsourced many of its processing and support activities within the PHUK group. While PSIL Senior Management provides an oversight of these arrangements on a day to day basis, it was nevertheless agreed by the Group Boards that a common risk framework and appetite would be the most effective and consistent means of managing risk across the group.

5.1.3 Risk Committees

PSIL Risk Governance

The PSIL Board is the senior strategic and decision making body. The Board delegates day to day responsibility for managing the business to the Executive Committee of PHUK Group ("ExCo") according to approved plans, policies and risk appetite.

The Executive Committee further delegates specific responsibilities to various committees to provide an appropriate oversight and direction to various risk and regulatory processes and activities, including:

Pershing Risk Committee

The Pershing Risk Committee (PRC) provides senior management oversight to the overall risk framework and all individual risk types that could potentially impact PSIL. The PRC reports to the ExCo and forms a central point for the oversight and management of risk and the escalation of significant risk issues and events to the Executive Committee and the Board. All other risk committees report to the PRC to ensure a consistent and holistic reporting of risks and these include the Operational Risk Committee, Credit and Market Risk Committee, Assets and Liability Committee, Client Asset Committee, the Business Acceptance Committee, and the Audit Oversight Committee.

Irish Compliance and Oversight Committee

The Irish Compliance and Oversight Committee assists the Board of PSIL and the ExCo in overseeing the Company's compliance with its regulatory and legal obligations and with applicable Compliance and Oversight Policies. Accordingly, while the Committee may adopt policies or procedures developed for PHUK Group, the Committee shall satisfy itself that such policies or procedures meet all of the requirements of Irish regulatory and legal obligations.

Operational Risk Committee

The Operational Risk Committee (ORC) has oversight of the embedding of the operational risk framework within PSIL. The Operational Risk Management Department is responsible for providing all necessary support to the ORC to ensure that the framework meets regulatory requirements and industry best practice in identifying, measuring and reporting on the relevant operational risks inherent in PSIL's business (including events such as, but not limited to, technical system failures, disaster events, failed processes or fraud).

Credit and Market Risk Committee

The Credit and Market Risk Committee (C&MRC) oversees the review of all Credit and Market Risk issues associated with and impacting on business undertaken by PSIL.

The Committee's principal Credit Risk responsibility is to determine and maintain an acceptable credit exposure to PSIL's clients, as well as to market makers, custodians and banks, within the limits set by the Boards.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) is responsible for overseeing the asset and liability management activities of the balance sheets of PSIL, and for ensuring compliance with all liquidity related regulatory requirements.

Client Asset Committee

The Client Asset Committee is responsible for the oversight and governance of PSIL's adherence to the CBI custody and client money rules, and reviews the adequacy of systems and controls in place to identify, segregate, and hold client assets in accordance with regulatory rules.

Business Acceptance Committee

The Business Acceptance Committee (BAC) is responsible for the review and approval of all new clients, products/services and material changes to existing processes before they can be executed or implemented.

Audit Oversight Committee

The Audit Oversight Committee is responsible for providing assurance that key business risks are being managed and that internal controls are operating effectively, actively soliciting input from PSIL's risk and control functions, and embedding risk management and control awareness across the business. The Committee provides a forum to outline management's expectations for Internal Audit, as well as monitor and review the effectiveness of PSIL's Internal Audit function in relation to their role in providing an independent oversight of PSIL's systems and controls.

5.2 Risk Management Framework

PSIL's risk management framework is designed to:

- Ensure that risks are identified, managed, mitigated, monitored and reported.
- Define and communicate the types and amount of risks to take.
- Ensure that risk-taking activities are consistent with the risk appetite.
- Monitor emerging risks and ensure they are weighed against the risk appetite.
- Promote a strong risk management culture that considers risk-adjusted performance.

Suitable policies and procedures have been adopted by PSIL in order to ensure an appropriate level of risk management is directed at the relevant element of the business.

As part of PHUK Group, PSIL has adopted the 'Three Lines of Defence' (3LOD) model in deploying its risk management framework (figure 2 below). The first line of defence (1LOD) is the business or, in some cases, business partner level. The business takes and owns the risk associated with its activities, and it manages the risks and the related control processes and procedures on an operational basis. The risk management and compliance functions are the second line of defence (2LOD) and own the risk management framework and provide independent oversight of the 1LOD, ensuring that policies are adhered to and challenged. The 2LOD also includes corporate security, business continuity, financial management and analysis within Finance. The third line of defence (3LOD) is Internal Audit, which independently provides the various Boards of PHUK Group and senior management with the assurance that the governance structures, risk management and internal controls in place are effective.

Figure 2: Managing Three Lines of Defence

The risk management function monitors and identifies emerging risks with a forward-looking approach. It provides risk management information to the PSIL 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.

5.3 Risk Appetite Statement

Pershing defines risk appetite as the maximum level of risk it is normally willing to accept while pursuing the interests of major stakeholders, including clients, shareholders, employees and regulators i.e. it considers the balance between risk and reward aligning the strategic goals and the overall risk. It is linked to the strategic direction set by senior management and is approved by the PSIL Board. The statement applies to all subsidiaries and is reviewed at least annually or when the Company's risk profile changes. The risk appetite ultimately determines the level of regulatory capital

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

Thresholds are established to measure the performance of the business against its risk appetite. The metrics are actively monitored, managed and mitigated through the monthly Pershing Risk Committee (PRC), to ensure that the performance of business activities remains within risk tolerance levels.

5.4 Stress Testing

Stress testing is undertaken at PSIL to monitor and quantify risk and ascertain that sufficient capital resources are held against risks on a forward-looking basis. The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to PSIL's risk profile. PSIL's stress testing process conclusion is a statement of the future

risk(s) that the business faces, control improvements to mitigate the impact should the risk arise and where appropriate, a recommendation for capital to be held against each risk type.

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by Risk Committee and Board.

6 Credit Risk

6.1 Definition and Identification

Credit Risk is the risk of loss arising from counterparties defaulting on their obligations to PSIL.

On balance sheet Credit Risk covers default risk for loans, commitments, securities, receivables and other assets where the realisation of the value of the asset is dependent on the counterparty's ability and willingness to repay its contractual obligations.

Due to the nature of PSIL's business as a provider of clearing and settlement services, Credit Risk mainly arises from the risk of loss in the event that a client, underlying investor or market counterparty fails to meet its contractual obligations to pay for a trade, or to deliver securities for sale. However, the legal structure of the clearing agreements provides PSIL with the right to set-off any indebtedness of underlying clients against any credit balance in the name of the same underlying client. PSIL also has recourse to securities and cash as collateral and indemnities from client firms in respect of any underlying clients. Consequently, the residual credit risk (i.e. post-mitigation) will devolve to market risk, as the exposure in such cases is the movement in the underlying stock and foreign currency prices. In addition, Pershing also requires clients to place a security deposit with PSIL to cover this potential mark to market exposure.

Credit Risk also arises from the non-payment of other receivables, cash at bank, loans to third parties, investment securities and outstanding client invoices and loans to third parties.

6.2 Management of Credit Risk

PSIL manages credit risk exposure by a two-stage process:

1) Setting minimum thresholds for the type of client acceptable to PSIL in terms of net worth and business profile, including:

- The type of business to be conducted through PSIL (e.g. retail vs. institutional; agency vs. matched principal);
- Markets and financial instruments in which the client can trade; and
- Any special conditions clients are subject to (e.g. cash on account).

Obtaining credit approval for a particular client is the primary responsibility of the business as the first line of defence alongside guidance and oversight from Credit Risk as the second line. Any new relationship requires approval from the Business acceptance Committee.

2) Monitoring all exposure (both pre- and post-settlement) on a daily basis against various limits for its clients, as follows:

- Trade Limit (set per client following analysis of the financial strength, management expertise, nature of business and expected – or historical – peak and average exposure levels);
- Gross Exposure Limit (calculated with reference to the security deposit and net worth of the client and utilised as the higher of total purchases or total sales);
- Negative mark to market exposure.

It should also be noted that the metrics supporting the management of credit risk are monitored on a daily basis and reported to senior management. Breaches are reported to senior management which may lead to management action such as requesting additional collateral, or requiring the client to inject additional capital into the business.

6.3 Governance

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

- Credit policy describes the outsourcing of credit risk tasks, defines roles and responsibilities and requires reporting to be carried out to each business line and entity that the policy applies to. Any deviation from approved policy requires either senior business or senior legal entity approval depending on the type of event.
- Approvals for excesses are controlled by a series of credit risk authorities held within credit policy – each Credit Risk Officer has their own level granted ultimately by the Director, Credit and Market Risk and acts within those limits when making approvals. If an excess is beyond the Officer's approval limit, it is escalated to the Director of Credit Risk.
- Limit excesses are reported in the daily Risk Management Pack and reviewed at the weekly Credit Committee.

6.4 Analysis of past due and impaired exposures

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

As at 31 December 2015, PSIL had no material impaired assets for which a specific or general provision was required. There were no material assets past due greater than 90 days. PSIL did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year to 31 December 2015.

6.5 Credit Risk Mitigation

PSIL mitigates Credit Risk through a variety of strategies including obtaining cash collateral

6.5.1 Collateral Valuation and Management

PSIL can receive collateral from a counterparty which can include guarantees, cash and both equity and debt securities and 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 PSIL 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.

6.5.2 Wrong-Way Risk

PSIL takes care to ensure that Wrong-way Risk between collateral and exposures do not exist. Wrong-way Risk results when the exposure to the counterparty increases when the counterparty's credit quality deteriorates.

6.5.3 Credit Risk Concentration

Credit risk mitigation taken by PSIL to reduce Credit Risk may result in Credit Risk Concentration. Credit Concentration Risk results from concentration of exposures to a single counterparty, borrower or group of connected counterparties or borrowers.

PSIL is exposed to Credit Concentration Risk through exchanges and central counterparties, correspondent banks and issuers of securities. These risks are managed and mitigated through the establishment of various limits, on-going monitoring of exposure, collateral and contractual obligations upon the client, including margin calls.

The number of counterparties PSIL is willing to place funds with is limited and hence, Concentration Risk can also arise from cash balances placed with a relatively small number of counterparties. To mitigate this, exposures are only placed on a very short-term basis, generally overnight (maximum of 180 days), ensuring ability to withdraw funds in a timely manner.

6.6 Analysis of Credit Risk

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

The following definitions are used in the tables:

Exposure at Default (EAD) is defined as the amount expected to be outstanding, after any Credit Risk Mitigation, if and when counterparty defaults. Exposure reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures over a one-year time horizon. As such, exposure in this context may differ from statutory IFRS accounting balance sheet carrying values.

Credit Risk Mitigation (CRM) is defined as a technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.

Geographic area is based on the continental location for the counterparty.

Residual maturity is defined as the period outstanding from the reporting date to the maturity or end date of an exposure.

Table 2: Credit Risk Pre and Post Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Exposure Class

This table shows the standardised gross credit exposure by exposure class as at 31 December 2015 and the comparative amounts at 31 December 2014 (EUR'000s).

Credit Risk – Exposure at Default (EAD) Pre CRM by Exposure Class	EAD pre CRM		Average EAD pre CRM	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Central governments or central banks	0	0	0	0
Corporates	33	191	495	163
Covered Bonds	0	0	0	0
Institutions	15,665	26,212	24,646	24,063
Multilateral Development Banks	0	0	0	0
Other items	373	17	223	20
Public sector entities	62	1	31	2
Retail	1,052	1,535	1,203	1,178
Total	**17,184**	**27,956**	**26,598**	**25,426**

Credit Risk - EAD post CRM & CCF by Exposure Class	EAD post CRM & CCF		Risk Weight Amount		Capital Requirement	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Central governments or central banks	0	0	0	0	0	0
Corporates	5	3	5	3	0	0
Covered Bonds	0	0	0	0	0	0
Institutions	13,871	25,377	3,441	6,028	275	482
Multilateral Development Banks	0	0	0	0	0	0
Other items	373	17	373	17	30	1
Public sector entities	62	1	12	0	1	0
Retail	0	0	0	0	0	0
Total	**14,311**	**25,399**	**3,831**	**6,049**	**306**	**483**

Notes: EAD (Exposure at Default), CRM (Credit Risk Mitigation), CCF (Credit Conversion Factors)

The difference between EAD pre CRM and EAD post CRM is represented by credit risk mitigants.

Table 3: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Geographical Area

This table shows the EAD pre CRM by credit exposure class by geographic area of the counterparty (EUR'000s).

SA Credit Risk by Exposure Class at 31 December 2015	Europe	Americas	MEA	APAC	Total
Central governments or central banks	0	0	0	0	0
Corporates	33	0	0	0	33
Covered Bonds	0	0	0	0	0
Institutions	13,642	2,023	0	0	15,665
Multilateral Development Banks	0	0	0	0	0
Other items	374	0	0	0	374
Public sector entities	62	0	0	0	62
Retail	1,050	0	1	0	1,052
Total	**15,161**	**2,023**	**1**	**0**	**17,185**

Notes: MEA (Mid East and Africa); APAC (Asia - Pacific)

SA Credit Risk by Exposure Class at 31 December 2014	Europe	Americas	MEA	APAC	Total
Central governments or central banks	0	0	0	0	0
Corporates	191	0	0	0	191
Covered Bonds	0	0	0	0	0
Institutions	24,896	1,312	4	0	26,212
Multilateral Development Banks	0	0	0	0	0
Other items	17	0	0	0	17
Public sector entities	1	0	0	0	1
Retail	1,535	0	0	0	1,535
Total	**26,640**	**1,312**	**4**	**0**	**27,956**

Table 4: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Counterparty Type

This table shows the EAD pre CRM, classified by credit exposure class and by counterparty type (EUR'000s).

SA Credit Risk by Exposure Class at 31 December 2015	General governments	Credit institutions	Other financial corporations	Various Balance Sheet Items	Households	Total
Central governments or central banks	0	0	0	0	0	0
Corporates	0	0	33	0	0	33
Covered Bonds	0	0	0	0	0	0
Institutions	0	15,665	0	0	0	15,665
Multilateral Development Banks	0	0	0	0	0	0
Other items	0	0	0	374	0	374
Public sector entities	62	0	0	0	0	62
Retail	0	0	0	0	1,052	1,052
Total	**62**	**15,665**	**33**	**374**	**1,052**	**17,185**

Table 5: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Residual Maturity

This table shows the EAD pre credit risk mitigation, classified by credit exposure class and residual maturity (EUR'000s).

SA Credit Risk by Exposure Class at 31 December 2015	Less than 3 months	3 months to 1 year	Over 1 year	Total
Central governments or central banks	0	0	0	0
Corporates	33	0	0	33
Covered Bonds	0	0	0	0
Institutions	15,665	0	0	15,665
Multilateral Development Banks	0	0	0	0
Other items	363	0	11	374
Public sector entities	62	0	0	62
Retail	1,050	0	0	1,052
Total	**17,174**	**0**	**11**	**17,185**

SA Credit Risk by Exposure Class at 31 December 2014	Less than 3 months	3 months to 1 year	Over 1 year	Total
Central governments or central banks	0	0	0	0
Corporates	191	0	0	191
Covered Bonds	0	0	0	0
Institutions	26,212	0	0	26,212
Multilateral Development Banks	0	0	0	0
Other items	0	0	17	17
Public sector entities	1	0	0	1

Retail	1,535	0	0	1,535
Total	**27,938**	**0**	**17**	**27,956**

Table 6: Exposures covered by financial and other eligible collateral

This table shows by each exposure class the total exposure that is covered by financial and other eligible collateral (EUR'000s).

Exposure Class	31-Dec-15	31-Dec-14
Central governments or central banks	0	0
Corporates	28	187
Covered Bonds	0	0
Institutions	1,794	835
Multilateral Development Banks	0	0
Other items	0	0
Public sector entities	0	0
Retail	1,052	0
Total	**2,874**	**2,557**

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

6.7 External Credit Rating Agencies (ECAIs)

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

Table 7: Mapping of ECAIs credit assessments to credit quality steps

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

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

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

Table 8: Credit quality steps and risk weights

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

Each CQS is associated with a particular risk-weighting.

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

Exposure class	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6
central governments or central banks	0%	20%	50%	100%	100%	150%
public sector entities	20%	50%	100%	100%	100%	150%
Institutions	20%	50%	50%	100%	100%	150%
Institutions up to 3 months residual risk	20%	20%	20%	50%	50%	150%
Unrated institutions	20%	50%	100%	100%	100%	150%
Corporates	20%	50%	100%	100%	150%	150%
Securitisation	20%	50%	100%	350%	1250%	1250%
Institutions and corporates with short-term credit assessment	20%	50%	100%	150%	150%	150%
Collective investment undertakings (‘CIUs’)	20%	50%	100%	100%	150%	150%
Covered Bonds	10%	20%	20%	50%	50%	100%

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

Table 9: Credit quality step pre CRM by credit exposure class

This table shows the EAD pre credit risk mitigation by credit quality step and credit exposure class using the standardised approach. The non CQS is where a rating is not available and a separate risk weight is assigned (EUR’000s).

SA Credit Risk by Exposure Class at 31 December 2015	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
Central governments or central banks	0	0	0	0	0	0	0	0
Corporates	0	0	6	0	27	0	0	33
Covered Bonds	0	0	0	0	0	0	0	0
Institutions	12,566	2,220	0	879	0	0	0	15,665
Multilateral Development Banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	374	374
Public sector entities	62	0	0	0	0	0	0	62

Retail	0	0	0	0	0	0	1,052	1,052
Total	**12,628**	**2,220**	**6**	**879**	**28**	**0**	**1,425**	**17,185**

SA Credit Risk by Exposure Class at 31 December 2014	**Credit Quality Steps**							
	1	**2**	**3**	**4**	**5**	**6**	**Non CQS**	**Total**
Central governments or central banks	0	0	0	0	0	0	0	0
Corporates	0	0	191	0	0	0	0	191
Covered Bonds	0	0	0	0	0	0	0	0
Institutions	25,007	0	0	1,205	0	0	0	26,212
Multilateral Development Banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	17	17
Public sector entities	1	0	0	0	0	0	0	1
Retail	0	0	0	0	0	0	1,535	1,535
Total	**25,008**	**0**	**191**	**1,205**	**0**	**0**	**1,552**	**27,956**

Table 10: Credit quality step post CRM and CCF by credit exposure class

This table shows the EAD post credit risk mitigation by credit quality step and credit exposure class using the standardised approach. The non CQS is where a rating is not available and a separate risk weight is assigned (EUR'000s).

SA Credit Risk by Exposure Class at 31 December 2015	**Credit Quality Steps**							
	1	**2**	**3**	**4**	**5**	**6**	**Non CQS**	**Total**
Central governments or central banks	0	0	0	0	0	0	0	0
Corporates	0	0	5	0	0	0	0	5
Covered Bonds	0	0	0	0	0	0	0	0
Institutions	11,651	2,220	0	0	0	0	0	13,871
Multilateral Development Banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	374	374
Public sector entities	62	0	0	0	0	0	0	62
Retail	0	0	0	0	0	0	0	0
Total	**11,713**	**2,220**	**5**	**0**	**0**	**0**	**374**	**14,312**

SA Credit Risk by Exposure Class at 31 December 2014	**Credit Quality Steps**							
	1	**2**	**3**	**4**	**5**	**6**	**Non CQS**	**Total**
Central governments or central banks	0	0	0	0	0	0	0	0
Corporates	0	0	3	0	0	0	0	3
Covered Bonds	0	0	0	0	0	0	0	0
Institutions	24,188	0	0	1,190	0	0	0	25,377
Multilateral Development Banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	17	17
Public sector entities	1	0	0	0	0	0	0	1

Retail	0	0	0	0	0	0	0	0
Total	**24,188**	**0**	**3**	**1,190**	**0**	**0**	**17**	**25,399**

Table 11: Counterparty credit risk

This table shows the risk mitigating impact of netting and collateralisation on counterparty credit risk relating solely to foreign currency derivative contracts under the mark-to-market method (EUR'000s).

Counterparty Credit Risk	31-Dec-15	31-Dec-14
Long Term Settlements - Mark to Market Method		
Gross Positive Fair Value of Contracts	0	0
Potential Future Credit Exposure	0	0
Netting Benefits	0	0
Net Current Credit Exposure	435	149
Collateral Held Notional Value	230	85
Exposure and Collateral Adjustments	0	0
Net Derivatives Credit Exposure	204	64
SFT - under Financial collateral comprehensive method		
Net Current Credit Exposure	0	0
Collateral Held Notional Value	0	0
Exposure and Collateral Adjustments	0	0
Net SFT Credit Exposure	0	0
Counterparty Credit Risk Exposure	**204**	**64**

Note: SFT (Securities Financing Transactions)

6.8 Credit Valuation Adjustment (CVA)

The credit valuation adjustment is the capital charge for potential mark-to-market losses due to the credit quality deterioration of a counterparty for derivative transactions. As PSIL did not have any derivative transactions as at 31 December 2015, the credit valuation adjustment was nil.

7 Market Risk

Market Risk is defined as the risk of adverse change to the economic condition of PSIL due to variations in prices, rates, implied volatilities, or correlations of Market Risk factors. Market Risk factors include but are not limited to interest rates, foreign exchange rates, market liquidity and equity prices.

By simply executing orders on behalf of its clients, the PSIL business model does not result in any proprietary trading or high risk investments. However it does act as a riskless principal between its clients and the market which results from time to time in a small position, including in foreign exchange, and which is traded out on an expedited basis. The PHUK Group Credit and Market Risk Committee set small overall limits for foreign exchange positions resulting from client-generated exposure.

PSIL's exposure to Market Risk mainly arises from Foreign Exchange (FX) Risk arising from revenue flows in foreign (non-Euro) currencies.

Table 12: Market risk – Standardised Approach

This table shows the components of the capital requirements and risk weighted assets for market risk using the standardised approach (EUR'000s).

Positions subject to Market Risk	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Foreign Exchange Risk	170	80	14	6
Total	**170**	**80**	**14**	**6**

7.1 Interest Rate Risk – Non-Trade 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. 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.

PSIL does not have any material exposure to Interest Rate Risk in its non-trading book.

8 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 or delivery incidents 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.

8.1 Operational Risk Management Framework

The Operational Risk Management Framework (ORMF) provides the processes and tools necessary to fulfil a strategy of managing risk through a culture of risk awareness, a clear governance structure, well defined policies and procedure, and suitable tools for reporting and monitoring to effectively identify, manage, mitigate, monitor and report the risks in an organised way to the appropriate governance bodies. PSIL has set a risk appetite statement which recognises the inherent nature of Operational Risk and the reliance on the ORMF to mitigate it.

The ORMF defines roles and responsibilities for managing risk, using the three lines of defence model as a foundation. Thus, responsibility for the management of Operational Risk sits first and foremost with the business and support functions as the first line of defence, where ownership and accountability for the identification, assessment and management of risks that arise through the course of its business and service provision reside.

The second line of defence, being the independent Operational Risk Management function, is responsible for reviewing and challenging the risks identified, assessed and managed by the first line of defence. The Operational Risk function is also responsible for building and maintaining the ORMF framework and partnering the first line of defence to enable them to embed it within their normal business processes.

The third line is Internal Audit, which is organizationally independent from both the first and second line of defence. A key responsibility of the third line as it pertains to the ORMF is to opine on the adequacy of the framework and governance process.

The mechanisms for identifying and managing operational risk include but are not limited to:

- Operational Risk Events (OREs) – A standard for the capture, notification and reporting of OREs.

  The collection of internal loss data provides information for assessing the company's exposure to Operational Risk. Analysis of loss events provides insight into the root cause and information on whether a control weakness is isolated or potentially more systemic.

- Risk & Control Self-Assessments – A comprehensive process for business groups and select business partners to identify risks associated with key business processes, identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effective operation of those controls in place to mitigate that risk.

- Key Risk Indicators (KRIs) – The use of key metrics designed to monitor risks which could cause financial loss, adverse consequences or reputation damage to the Company. Periodic and consistent monitoring of KRIs ensures that deviations from predetermined standards can be identified, managed and mitigated.

- Operational Risk Scenario Analysis - Operational risk scenario analysis is used to forecast the significant forward looking operational risks by combining operational risk data with expert management judgement.

These risk management processes are mandated through individual Operational Risk Polices. PSIL also uses the BNYMellon group system of record, the Risk Management Platform (RMP), to facilitate many of these processes.

PSIL also maintains a risk register which captures the most material risks associated with the business undertaken and the risk mitigations currently in place. The risk register is updated on a monthly basis.

Current issues, emerging and top risks, adverse KRIs and OREs (>$10,000) are reported to the PHUK Group Risk Committee.

Risk managers are assigned to oversee the risk management activities undertaken in the business of PSIL. Besides the operational risk function, other internal functions also ensure that processes are in place to support the sound operational risk management of the business e.g. Information Risk Management and Business Continuity Planning.

9 Remuneration Disclosure

9.1 Governance

The Human Resources and Compensation Committee (HRCC) of The Bank of New York Mellon Corporation (BNY Mellon) oversees Pershing's enterprise-wide employee compensation, benefit policies and programmes. It reviews and is responsible for other compensation plans, policies and programmes in which the executive officers participate and the incentive, retirement, welfare and equity plans in which all employees participate.

Members of the HRCC are non-executive board members, delegated by Pershing's Board of Directors to act on behalf of the Board on remuneration matters.

The company's compensation plans are also monitored by a management-level Compensation Oversight Committee (COC). An important responsibility of the COC is to advise the HRCC on any remuneration risk-related issues.

To ensure alignment with local regulations in BNY Mellon's EMEA (Europe, Middle-East and Africa) region, the EMEA Remuneration Governance Committee (ERGC) was set up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses.

9.2 Aligning Pay with Performance

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

Through its compensation philosophy and principles, it aligns the interests of its employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value. Our compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. Pershing aims to ensure that both fixed and variable compensation are consistent with business and market practice, fixed compensation is sufficient to provide for a fully flexible variable compensation program, and variable compensation is in the form of annual and/or long-term incentives, where appropriate.

9.3 Fixed Remuneration

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

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

Employees who have been asked and been 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 Pershing only receive fixed remuneration, as disclosed in the annual Proxy Statement to shareholders.

9.4 Variable Compensation Funding and Risk Adjustment

PSIL's staff are eligible to be awarded variable compensation. Variable compensation consists of both cash and deferred components and is determined by the functional hierarchy of the business or business partner service to which the individual staff member belongs, and in accordance with the

terms and conditions of the incentive compensation plan that is applicable for the business or business partner service. The incentive pool funding is based upon the risk-adjusted performance of the business line, legal entity or company as appropriate.

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 BNYMellon restricted stock units.

Furthermore, Pershing requires employees who receive awards to agree to clawback and/or forfeiture provisions on such awards in the event of fraud, misconduct or actions contributing to financial restatement or other irregularities. Where required by regulations, awards to Material Risk Takers are subject to more stringent risk adjustment, potentially including forfeiture and / or clawback in the case of misbehaviour, material error, material downturn in business unit performance or a material failure of risk management.

9.5 Ratio between Fixed and Variable Pay

The HRCC approved an increase in the maximum ratio of variable to fixed pay (“Bonus Cap”) from 100% to 200% on 27 Jan 2014 on the basis that the increased cap would not affect the firm’s ability to maintain a sound capital base, and allows for the appropriate incentivisation and reward in accordance with the Pay for Performance philosophy.

9.6 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 prorata basis for alternative periods), and will be subject to the performance of either (or both) the company or the respective business. The deferred component of the variable compensation award is usually delivered as restricted stock units whose value is linked to BNY Mellon’s share price. The percentage of the variable compensation award to be deferred depends on the level of the position, regulatory requirements and the amount of the award. For regulated staff, the variable compensation portion of an award comprises four different parts: upfront cash, upfront equity, deferred cash and deferred equity, in order to comply with local regulations. All such deferred awards are subject to terms and conditions that provide for forfeiture or clawback in certain circumstances.

9.7 Variable Remuneration of Control Function Staff

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

9.8 Quantitative Disclosures

Details of the aggregate remuneration of Material Risk Takers for PSIL for the year ending 31 December 2015 cannot be disclosed on the grounds of data confidentiality.

Appendix 1 Liquidity and Other Risks

Liquidity Risk

Liquidity Risk is the risk that PSIL cannot meet its cash and collateral obligations without significantly affecting daily operations or financial conditions. Liquidity risks can arise from funding mismatches, market constraints from an inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputational risks also can affect Pershing's liquidity risk profile and are considered in the liquidity risk management framework.

PSIL does not engage in proprietary trading activities or hold assets for resale on its balance sheet, and so does not have significant asset liquidity risk. PSIL's business model is of a transaction processing nature and PSIL maintains a prudent funding profile in order to supports its clients trading activities. The availability of sufficient and appropriate credit lines is of paramount importance.

A liquidity risk management framework has been established which is maintained on a day to day basis by the Pershing Treasury department. The ALCO provides oversight and ultimately the PRC and the PSIL Board.

Regulatory and Compliance Risk

Regulatory and Compliance Risk is defined as sustaining loss arising from non-compliance with laws, directives, regulations, reporting standards and lack of adequately documented and understood processes.

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

Existing and new directives and regulations are monitored and reviewed by Compliance and Finance for finance regulatory reporting management and findings are reported to senior management and the Board. Strategies and changes to comply with new regulations are put in place when necessary.

Reputation Risk

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

Pershing relies heavily on its reputation and standing in the market place to retain and attract clients.

Legal Risk

Legal Risk is the risk of loss arising from claims, lawsuits (including costs of defence and/or adverse judgments), and inability to enforce contracts.

Pershing's legal risks fall into the following categories:

- Corporate
- Client
- Employee
- Suppliers

These can occur as a result of non-payment / non-performance. They are mitigated using the legal documents that specify the responsibilities of both parties and the procedures for resolving disputes.

Outsourcing Risk

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

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

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

Business Risk

Business Risk is the risk of loss that the business environment poses to PSIL's profitability. It normally consists of items such as changes in the external macro environment or client behaviour, inappropriate management actions and performance of competitors. The list is not exhaustive.

Concentration Risk

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

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

Group Risk

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

PSIL has a number of dependencies on the larger Pershing group. These range from business leadership, dependency on certain IT systems and support services provided by central functions.

PSIL management has considered several possible scenarios where these services may be affected, these include IT services outage and other business continuity issues. These stress scenarios are included as part of the operational risk assessment.

Model Risk

Model Risk refers to the possibility of unintended business outcomes arising from the design, implementation or use of models. Model risk includes the potential risk that management makes

incorrect decisions based either upon incorrect model results, or incorrect understanding and use of model results.

PSIL uses models in its risk management framework. All models have been assessed in line with the relevant corporate policies and model risk management framework wherein the individual model is categorised into one of three tiers based on materiality, complexity, and level of reliance.

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

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

Strategic Risk

Strategic Risk is defined as the risk of direct or indirect loss arising from the adverse effects or the improper implementation of business decisions. It is a function of the compatibility of an organisation's strategic goals, the business strategies developed, the resources deployed to achieve those goals and the quality of implementation. It can result from either a misalignment between strategic decisions taken at the asset servicing and alternative investment services business level which impact PSIL, or failure to deliver business value through new strategic initiatives.

Country Risk

Country Risk is the risk of unfavourable evolution of operating profits and/or value of assets due to changes in the business environment resulting from political or macroeconomic factors.

Appendix 2 Glossary of Terms

The following terms are used in this document:

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

- **Internal Capital Adequacy Assessment Process (ICAAP):** The group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
- **ISDA Master Agreement:** A document that outlines the terms applied to a derivatives transaction between two parties. Once the two parties have agreed to the standard terms, they do not have to renegotiate each time a new transaction is entered into.
- **Key Risk Indicator (KRI):** Key Risk Indicators are used by business lines to evaluate control effectiveness and residual risk within a business process.
- **Master Netting Agreement:** An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract.
- **Pillar 3:** The part of Basel III that sets out information banks must disclose about their risks, the amount of capital required to absorb them and their approach to risk management. The aim is to encourage market discipline and improve the information made available to the market.
- **Prudential Regulation Authority (PRA):** the statutory body responsible for the prudential supervision of banks, building societies, credit unions insurers and major investment firms in the UK. The PRA is a subsidiary of the Bank of England.
- **Residual maturity:** The period outstanding from the reporting date to the maturity or end date of an exposure.
- **Risk appetite:** A definition of the types and quantum of risks to which the firm wishes to be exposed.
- **Risk and Control Self-Assessment (RCSA):** Risk and Control Self-Assessment is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls.
- **Risk Governance Framework:** PHUK Group's risk governance framework has been developed in conjunction with Pershing requirements. Key elements of the framework are:
    - Formal governance committees, with mandates and attendees defined
    - Clearly defined escalation processes, both informally (management lines) and formally (governance committees, board, etc.)
    - A clear business as usual process for identification, management and control of risks
    - Regular reporting of risk issues
- **Risk Weighted Assets (RWAs):** Assets that are adjusted for their associated risks using weightings established in accordance with CRD IV requirements.
- **Standardised approach:** Method used to calculate credit risk capital requirements using the Basel III, CRD IV, CRR model supplied by the BCBS. All financial institutions must opt to either use the Standard Approach (SA) specified by the regulator, or develop and use their own Internal Ratings Model (IRM). The SA model uses external credit assessment institution ratings and supervisory risk weights supplied by external credit assessment agencies.
- **Tier 2 capital:** A component of regulatory capital under Basel III, mainly comprising qualifying subordinated loan capital, related non-controlling interests and eligible collective impairment allowances.

Contacts

Name: Niall Harrington

Department: Country Manager

Phone: +353 1900 7960

Email: niall.harrington@pershing.ie

BNY MELLON

Pershing Securities International Limited

Hanover Building

Windmill Lane

Dublin 2