The Bank of New York Mellon SA/NV

PILLAR 3 DISCLOSURE

DECEMBER 31, 2015

BNY MELLON | Invested

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1 Introduction

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

This disclosure covers The Bank of New York Mellon SA/NV, its subsidiary undertakings and branches as at December 31, 2015.

These disclosures were approved for publication by BNYM SA/NV Board of Directors (the 'Board') on **April 27**, 2016.

1.1 Purpose of Pillar 3

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

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

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

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

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

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

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

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

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

1.2 Disclosure policy

Pillar 3 disclosures are published at BNYM SA/NV consolidated level.

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

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

Disclosure will be made annually and will be published in conjunction with the date of publication of the financial statements. BNYM SA/NV 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), see section Investor relations, Financial reports, other regulatory filings on the Company's website.

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

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

Confidential and non material information

The Board may omit one or more disclosures if the information provided is not regarded as material. The criterion for materiality used in these disclosures is that the bank will regard as material any information where omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

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

2 Board Approval

These disclosures were approved for publication by BNYM SA/NV's Board of Directors on 27 April 2016. The Board approves the adequacy of BNYM SA/NV's risk management arrangements, providing assurance that the risk management systems put in place are adequate with regard to BNYM SA/NV's profile and strategy.

3 Scope of Application

The Pillar III disclosure has been produced for BNYM SA/NV on a consolidated basis, including its branches and consolidated subsidiary. BNYM SA/NV is incorporated in Belgium and is a subsidiary of The Bank of New York Mellon Corporation (BNY Mellon) based in New York, the ultimate parent company of the group.

As any bank incorporated in Belgium, BNYM SA/NV is subject to dual supervision: for market conduct matters, supervision is exercised by the Financial Services and Markets Authority (FSMA) while for prudential matters, supervision is exercised by the European Central Bank together with the National Bank of Belgium, as BNYM SA/NV has been identified as a significant bank within the Single Supervisory Mechanism. As an assimilated settlement bank in Belgium, BNYM SA/NV is also directly supervised by the National Bank of Belgium. Its six branches and consolidated subsidiary (BNY Mellon Service Kapitalanlage-Gesellschaft mbH - KVG) are also subject to supervision by the following national Regulators:

Name	Type	Regulator
Amsterdam Branch	Branch	De Nederlandsche Bank (DNB)
Dublin Branch	Branch	Central Bank of Ireland (CBI)
Frankfurt Branch	Branch	Deutsche Bundesbank (DB) & Federal Financial Supervisory Authority / Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
London Branch	Branch	Prudential Regulatory Authority (PRA) Financial Conduct Authority (FCA)
Luxembourg Branch	Branch	Commission de Surveillance du Secteur Financier
Paris Branch	Branch	Autorité Du Contrôle Prudentiel (ACPR), Banque De France (BDF)
KVG	Subsidiary	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)

4 Company Description

4.1 Organisational Structure

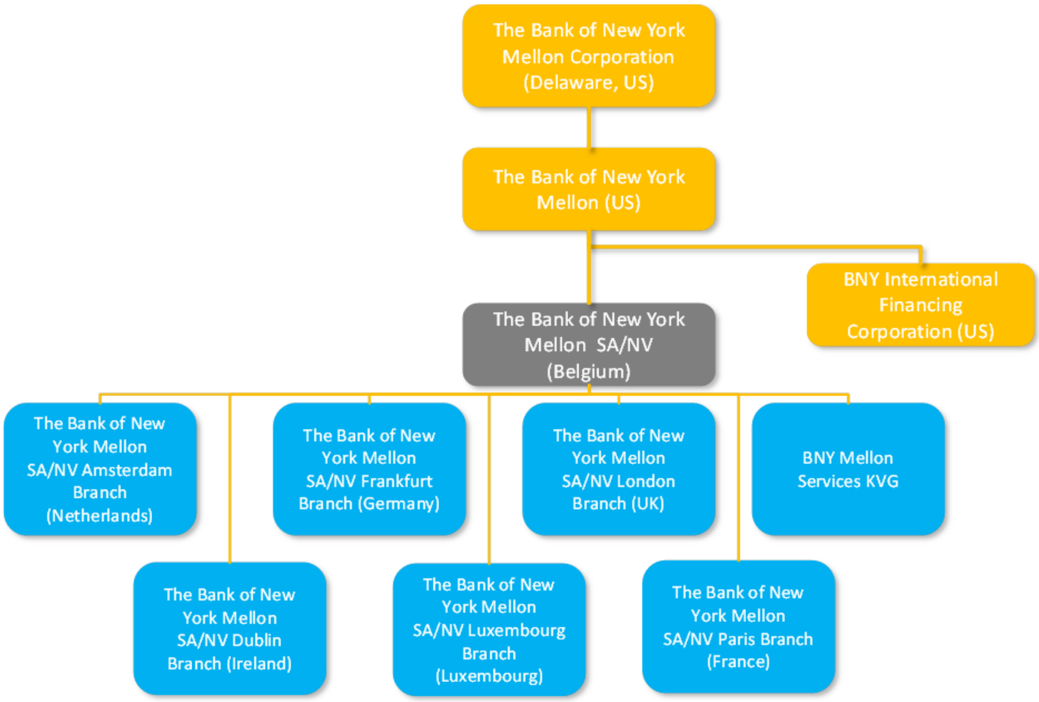
The Bank of New York Mellon SA/NV is a corporation with a banking licence, recognised as an assimilated settlement institution and is also recognised as a Systemically Important Financial Institution ('SIFI') in Belgium. The Bank of New York Mellon SA/NV provides services on a passported basis through its branches in Amsterdam, Brussels, Dublin, Frankfurt, London, Luxembourg and Paris. The Bank of New York Mellon SA/NV also has a subsidiary in Frankfurt, Frankfurter Service Kapitalverwaltungs-Gesellschaft mbH ('KVG').

The Bank of New York Mellon SA/NV, together with its six branches and consolidated subsidiary, is known as 'BNYM SA/NV'. BNYM SA/NV is a direct subsidiary of BNY International Financing Corporation, which in turn, is a direct subsidiary of The Bank of New York Mellon a New York state-chartered bank and an FDIC-insured depository institution. The Bank of New York Mellon is itself a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a financial holding company incorporated in the US state of Delaware. The entity structure chart of BNYM SA/NV is set out in

As part of BNY Mellon's strategy to consolidate its legal entity structure in Europe, The Bank of New York Mellon SA/NV acquired branches in Amsterdam, London, Frankfurt and Luxembourg further to the merger with BNY Mellon GSS Acquisition Co. (Netherlands) BV on 1 October 2009. On 1 June 2011, further to the merger with its acquired German subsidiary, BHF Asset Servicing GmbH, BNYM SA/NV significantly expanded the activities of its Frankfurt branch. On 1 December 2011, BNYM SA/NV opened a branch in Paris. On 1 February 2013, BNYM SA/NV opened a new branch in Dublin as a result of the cross-border merger with The Bank of New York Mellon (Ireland) Limited. BNYM SA/NV therefore operates six foreign branches in Amsterdam, Frankfurt, Luxembourg, London, Paris and Dublin.

The corporate structure of BNYM SA/NV is illustrated in Figure 1.

Figure 1: BNYM SA/NV corporate structure



4.2 Footprint

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

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

4.3 Core Business Lines

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

Line of business (LOB)	Description
Asset Servicing (AS)	Asset Servicing primarily comprises Global and Local Custody services but also includes Depot Banking, Institutional Accounting, Foreign Exchange (FX) services, Fund Accounting and Transfer Agency services.
Corporate Trust (CT)	BNYM SA/NV offers Corporate Trust services, acting in a broad range of agency roles including, but not limited to: trustee, registrar, issuing and paying agent, common depository, exchange agent, custodian and collateral / portfolio administration.
Foreign Exchange	BNYM SA/NV provides foreign exchange services which enable clients to achieve their investment, financing and cross-border objectives. This business provides currency hedge administration and foreign exchange sales and trading.
Collateral Management and segregation	BNYM SA/NV provides Global Collateral Management Services which serve broker-dealers and institutional investors facing expanding collateral management needs. This business provides Global Collateral Management and prime custody services, including Global Collateral Management (tri-party collateral management) and Prime Broker Services (tailored custody service to prime brokers).
Securities Finance	Securities Lending Indemnified securities lending activities, whereby BNYM SA/NV guarantees that the lender to the transaction is indemnified in the event that the borrower does not return the securities under the agreement. For this purpose, BNYM SA/NV has a lien on collateral of the borrower. This activity was exited in the fourth quarter of 2015 and fully transferred to the London Branch of BNY Mellon.
Liquidity Services	Liquidity Services Liquidity Services is responsible for sales, client service and product management relating to the Liquidity DIRECT web portal. Liquidity Services is also responsible for relationships with the investment managers whose liquidity funds are available to clients through the Liquidity DIRECT platform and other instruction platforms. The Liquidity DIRECT online platform provides a medium for clients to view, transact and generate reporting for their daily liquidity activities. Liquidity Services provides sales and client service for contracting clients.
Depository Receipts	BNYM SA/NV Dublin Branch performs certain operational activities relating to Depository Receipts, predominantly issuance and cancellation. Depository Receipts facilitate cross-border investment solutions for companies and investors. They are negotiable financial securities issued by a bank to represent foreign companies' publicly traded securities, allowing them to have their stocks traded in foreign markets.
Broker-Dealer and Advisory Services	Broker-Dealer and Advisory Services conduct global clearing services for equity and fixed income transactions.

5 Key Metrics

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

Metrics **€(m)**	**2015**	**2014**
Common Equity Tier 1 capital	2,053	1,774
Total Tier 1 capital	2,053	1,774
Total Tier 2 capital	346	346
Total regulatory capital	2,399	2,120
Risk weighted assets	2,741	6,649
Ratios		
Tier 1 capital ratio	74.9%	24.3%
Total capital ratio	87.5%	29.5%
Leverage ratio	5.7%	4.1%

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

Key Highlights and post balance sheet date events

The following main events took place in 2015 and are considered important events that impacted BNYM SA/NV:

- As part of its business strategy, BNYM SA/NV exited the derivatives clearing and the securities lending businesses in 2015.
- During the second quarter of 2015, BNYM SA/NV implemented the Master Netting Agreement covering the netting of placements and deposits with BNY Mellon Corporation, as an eligible form of credit risk mitigation under the capital requirements regulation (CRR) for regulatory reporting purpose. The implementation of this measure, combined to the exit of derivatives clearing and securities lending indemnification businesses increased even more BNYM SA/NV's strong solvency and leverage ratios.
- Finally, in the course of 2015, BNYM SA/NV maintained and reinforced the structural shift in balance sheet composition from central bank and third party placements to higher yielding investment securities.
- BNYM SA/NV is designated by the regulator as a domestic systemically important financial institution (SIFI) and is subject to the European Central Bank (ECB) Comprehensive Assessment and Stress Testing under the Single Supervisory Mechanism.

6 Own Funds

This section provides an overview of the regulatory balance sheet and composition of BNYM SA/NV's regulatory capital. There are a number of differences between the balance sheet prepared in accordance with International Financial Reporting Standards (IFRS) and Pillar 3 disclosures published in accordance with prudential requirements.

Table 1: Own Funds, Full Reconciliation

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

31 December 2015 (EUR'000s)	Published Audited Financial Statements	Adjustments due Consolidation Scope	Adjustments due Transitional Provisions	Regulatory Prudential Adjustments	Regulatory Own Funds
Common Equity Tier 1					
Capital Instruments	1,541,987	0	0	0	1,541,987
Retained Earnings	1,065,366	0	0	0	1,065,366
Other comprehensive income	71,534	0	0	0	71,534
Reserves	13,929	0	0	0	13,929
Minority Interest	0	0	0	0	0
Other adjustments and assets deducted*	0	0	-74,199	-564,936	-639,135
Total CET1	2,692,816	0	-74,199	-564,936	2,053,681
Additional Tier 1 Capital					
Capital Instruments	0	0	0	0	0
Instruments issued by subsidiaries	0	0	0	0	0
Other assets deducted	0	0	0	0	0
Other prudential deductions	0	0	0	0	0
Other adjustments and assets deducted	0	0	0	0	0
Total AT1	0	0	0	0	0
Total Tier 1 (CET1 + AT1)	2,692,816	0	-74,199	-564,936	2,053,681
Tier 2 Capital					
Capital Instruments	0	0	0	0	0
Subordinated loans	0	0	0	345,500	345,500
Instruments issued by subsidiaries	0	0	0	0	0
SA - Credit Risk Adjustments	0	0	0	0	0
Other asset deducted	0	0	0	0	0
Other adjustments and assets deducted	0	0	0	0	0
Total Tier 2 Capital	0	0	0	345,500	345,500

31 December 2015 (EUR'000s)	Published Audited Financial Statements	Adjustments due Consolidation Scope	Adjustments due Transitional Provisions	Regulatory Prudential Adjustments	Regulatory Own Funds
Total Own Funds	2,692,816	0	-74,199	-219,436	2,399,181

* Other adjustments correspond to the transitional provisions applied on unrealised gains and losses measured at fair value (mainly on central government exposures classified in the "available-for-sale" category).

BNYM SA/NV's regulatory capital is defined by CRD IV and includes:

Common equity tier 1 capital which is the highest quality form of regulatory capital under Basel III comprising common shares issued and related share premium, retained earnings and other reserves, less specified regulatory adjustments.

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

Table 2: Composition of regulatory capital

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

Own Funds (EUR'000s)	31-Dec-15	31-Dec-14
Common Equity Tier 1 (CET1)		
Capital Instruments	1,541,987	1,541,987
Retained Earnings	1,065,366	801,569
Other compressive income	71,534	72,271
Reserves and others	13,929	12,404
CET1 Adjustments	-639,135	-654,014
Total CET1	2,053,681	1,774,217
Additional Tier 1 Capital (AT1)		
Capital Instruments	0	0
Others	0	0
AT1 Adjustments	0	0
Total AT1	0	0
Total Tier 1 (CET1 + AT1)	2,053,681	1,774,217
Tier 2 Capital (T2)		
Capital Instruments and subordinated loans	345,500	345,500
Others	0	0
T2 Adjustments	0	0

Own Funds (EUR'000s)	31-Dec-15	31-Dec-14
Total Tier 2 Capital	345,500	345,500
Total Own Funds	2,399,181	2,119,717

Transitional own funds disclosure at 31 December 2015 (EUR'000s)

Equity Instruments, Reserves and Regulatory Adjustments	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
Common Equity Tier 1 capital: Instruments and Reserves		
Capital instruments and the related share premium accounts	1,541,987	
of which: ordinary shares	1,541,987	
Retained earnings	1,065,366	
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	85,463	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**2,692,816**	**0**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments (negative amount)	-835	
Intangible assets (net of related tax liability) (negative amount)	-564,101	
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-74,199	-74,199
Year-end non eligible earning adjustments	0	
Total regulatory adjustments to Common equity Tier 1 (CET1)	**-639,135**	
Common Equity Tier 1 (CET1) capital	**2,053,681**	
Additional Tier 1 (AT1) capital: Instruments		
Capital instruments and the related share premium accounts	0	
Additional Tier 1 (AT1) capital before regulatory adjustments	**0**	
Additional Tier 1 (ATI) capital: regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 (AT1) capital	**0**	
Additional Tier 1 (AT1) capital	**0**	
Tier 1 capital (T1 = CET1 + AT1)	**2,053,681**	

Equity Instruments, Reserves and Regulatory Adjustments	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
Tier 2 (T2) capital: Instruments and provisions		
Capital instruments and the related share premium accounts	345,500	
Tier 2 (T2) capital before regulatory adjustments	**345,500**	
Tier 2 (T2) capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 (T2) capital	**0**	
Tier 2 (T2) capital	**345,500**	
Total capital (TC = T1 + T2)	**2,399,181**	
Total risk weighted assets	**2,740,934**	
Capital ratios and buffers		
Common Equity Tier 1(as a percentage of risk exposure amount)	74.9%	
Tier 1 (as a percentage of risk exposure amount)	74.9%	
Total capital (as a percentage of risk exposure amount)	87.5%	

Table 3: Tier 2 instruments

This table provides a description of the main features of regulatory instruments issued and included as Tier 2 capital in table 2.

	Loan 1	**Loan 2**
Legal entity issuer	The Bank of New York Mellon SA/NV	The Bank of New York Mellon SA/NV
Governing law	Belgian law	Belgian law
Capital classification	Tier 2	Tier 2
Type	Subordinated debt	Subordinated debt
Capital amount	92,500,000 EUR	253,000,000 EUR
Issuance	92,500,000 EUR	253,000,000 EUR
Accountancy classification	Other financial liabilities	Other financial liabilities
Issue date	October 1st 2009	July 23rd 2010
Dated or perpetual	Perpetual	Maturing on July 22nd 2040
Fixed or floating coupon	Fixed	Fixed

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

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

7 Capital Requirements

BNYM SA/NV's capital plan aims to ensure that it holds an appropriate amount of capital to support its business model, allowing for growth and orderly contraction over the life cycle of the business, given a range of plausible but severe stress scenarios. Potential capital shortfalls are identified over a 5 year period and capital plans adjusted accordingly. The plan is reflective of BNYM SA/NV's risk appetite, which details a commitment to a strong balance sheet characterised by strong liquidity, superior asset quality and a capital structure which supports the risk taking activities and has the ability to absorb losses.

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

Incorporating the projected earnings based on its business plan, BNYM SA/NV generates a 5 year forecast which forms the base foundation for financial modelling and stress testing used as part of the ICAAP process.

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

7.1 Calculating capital requirements

CRD IV allows for different approaches for calculating capital requirements. BNYM SA/NV applies the standardised approach under Pillar 1 where risk weights are based on the exposure class to which the exposure is assigned and its credit quality. These risk weights used to assess requirements against credit exposures are consistent across the industry. The standardised approach is used for calculating the risk weights assigned to each risk component including credit risk, counterparty credit risk, market risk and operational risk.

Table 4: Capital requirements overview

This table shows the risk weighted assets using the standardised approach (*SA) and their respective capital requirements

Type of Risk (EUR'000s)	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Credit risk SA*	1,372,827	4,051,421	109,826	324,114
Counterparty Credit Risk SA*	257,736	1,246,894	20,619	99,752
Securitisation Risk in banking book SA*	0	0	0	0
Settlement risk	0	0	0	0
Market risk SA*	74,657	251,481	5,973	20,119
of which: Foreing Exchange Position Risk	74,657	251,481	5,973	20,119
Operational risk	965,788	1,041,031	77,263	83,283
of which: Basic Indicator Approach	0	0	0	0
of which: Standardised Approach	965,788	1,041,031	77,263	83,283

Type of Risk (EUR'000s)	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
of which: Additional Amount due to fixed overheads	0	0	0	0
Credit Valuation Adjustment - Standardised method	69,926	58,120	5,594	4,650
Related to Large Exposure in Trading Book	0	0	0	0
Other risk	0	0	0	0
Total	**2,740,934**	**6,648,947**	**219,275**	**531,916**
Total Capital			**2,399,181**	**2,119,717**
Surplus Capital			**2,179,906**	**1,587,801**

BNYM SA/NV largely exceeds the minimum capital ratios required. BNYM SA/NV sets the internal capital target levels higher than the minimum regulatory requirements to ensure there is a buffer which reflects balance sheet volatility. These ratios have been determined to be appropriate, sustainable and consistent with the capital objectives, business model, risk appetite and capital plan.

8 Risk Management Objectives and Policies

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

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

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

8.1 Risk Management Objectives

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

- The Board recognises that defining a risk appetite must consider the views of a number of different stakeholders while accounting for business strategy and risk profile.
- The Board sees embedding the risk appetite into the business strategy as essential.

- The Board recognises that it cannot mitigate all risks. The risk framework includes standard risk management self-assessment tools that take into account loss history and stress testing to measure and monitor whether or not risk controls in place continue to remain effective.
- The Board will seek input from its own and group wide risk committees on a regular basis in the Board's reassessment of appetite and sources of major risks.

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

8.2 Risk Governance

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

8.2.1 Board of Directors

The Board is composed of natural persons, shareholders or not. The Board includes all members of the Executive Committee ("Comité de direction"), i.e. the executive directors. The majority of the Board members are non-executive directors. There shall always be a majority of non-executive directors in the Board. At least two of the non-executive Board members are independent directors (as defined in the Belgian Companies Code and set out below).

The table below shows the members of the Board and its committees as of December 31, 2015.

Name	*Position*
Non-Executive Directors	
Michael Cole-Fontayn	Chair of the Remuneration Committee and Member of the Nomination Committee
Hani Kablawi	Member of the Audit Committee and Member of the Risk Committee
Olivier Lefebvre	Independent Chair of the Board of Directors, Independent Chair of the Audit Committee and Independent Member of the Nomination Committee
Jürgen Marziniak	Independent Chair of the Risk Committee and Independent Member of the Remuneration Committee
Karen Peetz	Chair of the Nomination Committee and Member of the Remuneration Committee
Executive Directors	
Laura Ahto	Chief Executive Officer President of the Executive Committee
Hedi Ben Mahmoud	Chief Risk Officer Member of the Executive Committee
Annik Bosschaerts	Chief Operations Officer Member of the Executive Committee

Eric Pulinx	Chief Financial Officer Deputy Chief Executive Officer Member of the Executive Committee

All nominations to the Board are made against merit and on the basis of director's qualifications and in accordance with the needs of the Board at the time of the nomination, with due regard to diversity and gender parity. At least one third of each gender shall be represented on the Board and on the Executive Committee.

The main duty and responsibility of the Board is to define the strategy of BNYM SA/NV and to supervise the management of BNYM SA/NV. Whilst acting autonomously and in accordance with its legal and regulatory requirements, the Board aligns BNYM SA/NV's strategy to that of its primary shareholder. The Board has overall responsibility for the establishment and maintenance of BNYM SA/NV's risk appetite framework and for the approval of the risk appetite statement, which is developed in collaboration with the Chief Executive Officer (CEO), Chief Risk Officer (CRO) and Chief Financial Officer (CFO). The Board must ensure that strategic and business plans are consistent with the approved risk appetite. The main duties and responsibilities of the Board of Directors of BNYM SA/NV include, but are not limited to:

- defining the general business strategy, objectives and values of the Company in line with these of The Bank of New York Mellon;
- plan and monitor the implementation of the general business strategy, objectives and values within the Company;
- fixing the Company's risk tolerance level and regularly reviewing and approving the strategies and policies relating to the taking, management, follow-up and mitigation of risks;
- supervising the management of the Company's significant risks and ensuring adequate resources are allocated to it;
- approving the capital adequacy position and ensuring changes in the Company consider capital impacts;
- approving the recovery plan;
- approving the liquidity recovery plan;
- supervising effectively the Executive Committee and the decisions taken by the Executive Committee;
- drawing up annual and interim reports and accounts;
- assessing regularly (at least once per year) the efficiency of the internal organisation and system of internal control of the Company and its compliance with applicable laws and regulations;
- assessing the proper functioning of the Company's independent control functions (risk, internal audit and compliance); ensuring the integrity of the accounting and financial reporting systems and assessing regularly (at least once per year) the efficiency of the internal control structure, in particular regarding the financial reporting process;
- ensuring that the Company's internal governance - as translated into its Internal Governance Memorandum - is appropriate to its business, size and organization;

- approving the Internal Governance Memorandum and ensuring it is kept up-to-date and submitted to the supervisory authority;
- approving and reviewing regularly (at least once per year) the Company's remuneration policy, and supervising its implementation;
- selecting and evaluating the members of the Executive Committee and reviewing the process for the selection, evaluation, and development of other key managers (in particular the Chief Risk Officer, Chief Compliance Officer, Chief Internal Auditor);
- ensuring the succession planning for key managers;
- reviewing the Company's processes for protecting the Company's assets and reputation;
- approving policies and procedures as may be required by law or otherwise appropriate;
- reviewing the Company's processes for compliance with applicable laws, regulations and the internal policies including the Code of Conduct;
- overseeing the process of external disclosure and communications.

The Board is responsible for both the management and the oversight of risks together with the quality and effectiveness of internal controls but has delegated risk management oversight to general management, supported by the risk management committees. The Board is 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.

8.2.2 Legal Entity Risk Management

The Executive Committee of BNYM SA/NV (“ExCo”) has been established by the Board of Directors in accordance with article 24 of the Banking Act and article 524bis of the Belgian Companies Code and has been entrusted with the general management of BNYM SA/NV with the exception of (i) the determination of the strategy and general policy of BNYM SA/NV and (ii) the powers reserved to the Board by law or the articles of association. The ExCo normally meets twice a month, and reports to the Board.

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

The ExCo reviews corporate initiatives including strategic initiatives, financial performance, new business initiatives, policy changes, controls and organisational development. The ExCo has responsibility across all Lines of Business conducted by or impacting BNYM SA/NV, its branches or subsidiary.

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

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

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

- The Risk Management Committee (“RMC”)
- The Belgium Asset and Liability Committee (’Belgium ALCO’)
- The Capital and Stress Test Committee (“CSTC”)
- The Credit Risk Oversight Committee (“CROC”)
- The Technology and Information Risk Committee (“TIRC”) is to provide a detailed review of all key Client Technology Solutions (CTS) services and emerging risk for reporting to the RMC.

Risk Management Committee (“RMC”)

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

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

BNYM SA/NV RMC is chaired by the BNYM SA/NV’s CRO and reports into the Executive Committee. Any significant issue raised at the RMC is also escalated to other appropriate corporate regional oversight committees, as appropriate, as well as to the Risk Committee of the Board of BNYM SA/NV.

Capital and Stress Testing Committee (“CSTC”)

The CSTC is an empowered decision making body under authority delegated by BNYM SA/NV Executive Committee (the SA/NV ExCo) and subject to corporate policy, legislation and external regulation.

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

Asset and Liability Committee ("ALCO")

The Belgium Local ALCO Committee ("Belgium ALCO") is responsible for overseeing the asset and liability management activities of (a) the consolidated balance sheet of BNYM SA/NV and its branches and subsidiary, as well as (b) the local balance sheet of The Bank of New York Mellon Brussels Branch, and for ensuring compliance with all treasury related regulatory requirements.

The Belgium ALCO is responsible for ensuring that policy and guidance set through the Company and EMEA ALCO is understood and executed locally. This includes strategy related to the investment portfolio, placements, interest rate risk, and liquidity risk.

Business Acceptance Committees (BAC)

The objectives of the BACs (which are organized , at EMEA level, per business line) are to provide oversight and guidance for the activities of BNYM SA/NV and other EMEA entities related to any piece of business that deviates from the standard in terms of:

- Fees pricing
- Legal contract
- Operational requirements
- Risk profile
- Deal structure

BACs are held regularly or on an ad hoc basis, depending on business requirements and volumes.

The BACs cover the following:

- New business acceptance
- Existing business
- Fee renegotiation
- New operational requirements
- Additional risk profile

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

Credit Risk Oversight Committee ("CROC")

The key purpose of the BNYM SA/NV Credit Risk Oversight Committee is to oversee all forms of credit risk and oversee controls of credit risk associated with BNYM SA/NV banking business and ensure compliance with BNYM SA/NV credit policies.

The Credit Risk Oversight Committee (CROC) has been appointed by the Executive Committee of BNYM SA/NV.

The Technology and Information Risk Committee ("TIRC")

The key purpose of the TIRC is to provide a detailed review of all key Client Technology Solutions (CTS) services and emerging risk for reporting to the RMC.

8.2.3 Regional Risk Governance

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

Oversight and escalation is provided through the following key committees:

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

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

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

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

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

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

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

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

8.2.4 Business Unit Risk Governance

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

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

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

8.3 Risk Management Framework

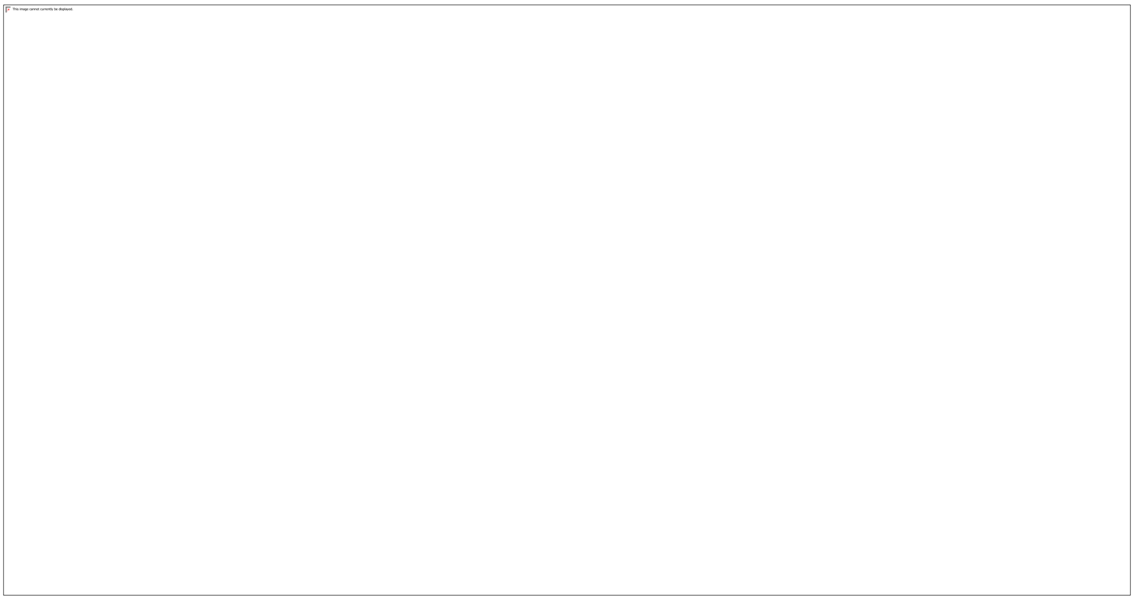
The Risk Function's goal is to establish and maintain a strong, adequately resourced, and forward looking BNYM SA/NV Risk function that is well placed to identify and manage emerging risks in a timely manner, by legal entity and business.

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

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

In line with global policy, BNYM SA/NV 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 activities, and it manages the risks and the related control processes and procedures on an operational basis. The risk management and compliance functions are the second line of defence (2LOD) and own the enterprise-wide risk management framework and provide independent oversight of the 1LOD, ensuring that policies are adhered to and challenged. This also includes corporate security, business continuity, financial management and analysis within Finance. The third line of defence (3LOD) is Internal Audit, which independently provides the BNYM SA/NV Board 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



8.4 Risk Appetite

The Risk Appetite Statement is an integral part of the management of the business within BNYM SA/NV. The statement is owned and set by the BNYM SA/NV Board of Directors.

BNYM SA/NV is committed to ensuring that, in executing on its strategic and operational plans, it at all times operates within its own risk appetite. In order to achieve this, BNYM SA/NV is committed to having a robust statement of risk appetite that can be clearly communicated to all of its stakeholders and beyond which it will not operate. Furthermore, BNYM SA/NV is committed to ensuring that forward looking controls over the individual components of Risk Appetite are embedded into the terms of reference of the Governance committees that both directly and indirectly have the ability to influence the risk profile of BNYM SA/NV. BNYM SA/NV's Risk Appetite Framework defines the roles and responsibilities for ownership, approval and monitoring of risk appetite, and the incorporation of risk appetite into the governance, business management, decision making and strategy development processes of BNYM SA/NV. BNYM SA/NV Risk Appetite approach is aligned with the BNY Mellon Group's approach.

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

BNYM SA/NV's risk profile is recorded through a number of risk assessment tools, further explained below.

8.5 Risk Assessment Methodology and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by BNYM SA/NV. These limits reflect the business strategy and market environment of

BNYM SA/NV as well as the level of risk that BNYM SA/NV is willing to accept. In addition, BNYM SA/NV's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

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

Internal Capital Adequacy Assessment Process (ICAAP)

The purpose of the ICAAP is to:

- Inform and seek approval from BNYM SA/NV's senior management and Board of the ongoing assessment of the firm's risks and the approaches used to mitigate those risks, such that they remain within the risk appetite established by the Board;
- Determine how much capital is likely to be necessary to support those risks at the point when the assessment is made and also over the firm's five-year planning horizon, both under baseline and stressed conditions;
- Document the capital adequacy assessment process both for internal stakeholders and for prudential supervisors;
- Provide the necessary information so that senior management and the Board can make decisions about the amount of capital that is required and the approach to risk management that should be adopted.

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

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

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

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

- Permanence of the Resources

- Loss Absorption Capacity of Resources
- Availability of Resources

New and modified businesses / products assessment process

New or modified products or business need to be reviewed and approved by the corresponding Business Acceptance Committee (Line of Business).

In addition to the BAC acceptance and in order to ensure full compliance towards Legal Entity specific concerns, the Risk Management Committee of BNYM SA/NV must approve the business or product.

Significant new client process

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

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

Risk Controls Self-Assessment process

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

Operational risk events process

All operational losses and fortuitous gains exceeding USD 10,000 are captured in the Risk Management platform with completeness being verified by reconciliation to the General Ledger. Risk events are categorised by causal category. Operational Loss Events reporting form part of the standard risk management report to the Risk Management Committee.

Credit Risk monitoring process

All counterparties leading to credit risk exposures are assessed and allocated a borrower rating in accordance with the BNY Mellon’s credit rating system. Monitoring & Control is conducted via a number of real-time systems to ensure that approved exposure levels are not exceeded, or are pre-approved by a suitable credit officer in the light of individual circumstances. Post event monitoring is also conducted by both Client Service areas and the Credit function as well as the recently created Large Exposure function. Issues arising from these are reported to the BNYM SA/NV Risk Management Committee and to the Credit Risk Oversight Committee.

Market risk monitoring process

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

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

Liquidity risk management process

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

Top Risk process

The RMC maintains the list of Top Risks for the legal entity. The RMC also receives the list of Top Risks from EMEA, and Group level. The RMC holds monthly discussions around the top risks for BNYM SA/NV, and discuss the progress to mitigate them.

8.6 Key Risk Indicators

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

8.7 Risk Register

The Risk Register is a risk management tool used for the assessment and documentation of risks associated with an entity. The risk register is created using risk data extrapolated from business risk and control self-assessments, and consultation with business risk champions, business risk partners and executive management. It is owned by the Legal Entity Risk Officer and provides a high level view of the entity's risk exposure and assists in identifying the top risks for the entity. Detailed risk mitigation plans for top risks are owned and maintained by risk owners and these plans are also made available to the RMC for oversight and challenge, which has delegated authority from the Risk Committee of the Board. The risk register is a living document and is updated regularly, and at least annually.

8.8 Stress Testing

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

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by BNYM SA/NV's RMC and Board.

8.9 Escalation of Risks and Issues

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

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

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

8.10 Recovery & Resolution Planning

In 2015, a recovery plan was prepared for submission to the Joint Supervisory Authority (European Central Bank and National Bank of Belgium) in accordance with the Bank Recovery and Resolution Directive 2014/59/EU.

The recovery plan is designed to ensure that BNYM SA/NV has credible and executable options to meet the challenges that may arise from potential future financial crises.

9 Credit Risk

9.1 Definition and Identification

Credit risk is the risk that an obligor is unable or unwilling to satisfy an obligation when it falls due. Credit risk can originate from on-balance sheet obligations such as deposits, loans, commitments, securities and other assets by failing to make the required repayments. Credit risk can also be created by off-balance sheet items including (as at end 2015) traded counterparty credit risk and letters of credit.

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

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

9.2 Credit Risk Management Framework

The Credit Risk Management Framework (CRMF) defines roles and responsibilities using the three lines of defence, as defined in section 7.3. The CRMF within BNYM SA/NV relies on awareness, well defined policies, procedures and reporting, a clear governance structure and suitable tools for reporting and monitoring; these are used to effectively identify, manage, mitigate, monitor and report the risks in an organized way to the appropriate governance body.

A series of new credit risk procedures at BNY Mellon Group level (applicable to SA/NV as well) have been developed to enhance the execution of the CRMF. The procedures define sustainable baseline standards to be applied across all business level operational risk functions including BNYM SA/NV, and focus on:

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

9.3 Management of Credit Risk

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

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

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

Specific guidelines to these processes are detailed in the Group Credit Risk Policy Manual database.

Every counterparty is associated with an Internal rating defining its credit quality. In that Nostros accounts are maintained at the minimum possible level and within large exposures limits commensurate with smooth operation of client and own fund's needs. The banks used are all major well rated banks in the relevant country.

Regarding intraday overdrafts, limits are set for each client as a percentage of a client's assets under custody (subject to certain maximum levels); all cash payments are checked against this limit on a real-time basis. Any excesses are referred to a credit officer for approval. Occasionally business requirements are such that a manual fixed limit is required.

In these situations, specific credit approval is provided by the credit risk manager. Again all cash payments are checked against this limit, prior to payment. These arrangements allow clients to access proceeds of sales, or other expected funds, even though in many markets the proceeds are not formally received until late in the day.

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

9.4 Monitoring and Reporting

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

Post-event monitoring is conducted by both the client service areas and the Credit Risk function.

9.5 Analysis of Credit Risk

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

The following credit risk exposure tables summarise the credit exposure for BNYM SA/NV in accordance with the CRD IV requirements.

The 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 5: Credit Risk Pre and Post CRM – by Exposure Class

The tables below present the credit exposures (pre- and post-CRM) by exposure class as at 31 December 2015 and the comparatives at 31 December 2014 (EUR’000s).

Credit Risk - Exposure at Default (EAD) Pre CRM by Exposure Class (EUR’000s)	EAD pre CRM		Average EAD pre CRM	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Central governments or central banks	24,146,708	17,206,409	23,585,353	14,760,389
Corporates	1,466,071	988,571	1,279,357	637,959
Covered Bonds	982,259	1,894,625	1,479,919	1,743,622
Institutions	8,471,853	13,061,947	12,751,517	26,796,349
Multilateral Development Banks	450,959	202,046	329,320	187,598
Other items	277,100	273,370	367,537	267,474
Public sector entities	0	0	0	0
International Organisations	71,712	0	43,386	0
Total	35,866,663	33,626,969	39,836,389	44,393,391

Credit Risk - EAD post CRM & CCF by Exposure Class (EUR'000s)	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	24,330,044	17,206,409	0	0	0	0
Corporates	301,756	988,571	226,550	987,512	18,124	79,001
Covered Bonds	982,259	1,894,625	98,226	189,463	7,858	15,157
Institutions	3,820,530	12,995,299	764,855	2,599,574	61,188	207,966
Multilateral Development Banks	450,959	202,046	0	0	0	0
Other items	277,100	273,370	283,197	274,872	22,656	21,990
Public sector entities	0	0	0	0	0	0
International Organisations	71,712	0	0	0	0	0
Total	30,234,361	33,560,320	1,372,827	4,051,421	109,826	324,114

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

Table 6: Credit Risk Pre CRM - by Geographical Area

The tables below show 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 (EUR'000s)	Europe	Americas	MEA	APAC	Total
Central governments or central banks	20,035,616	4,110,059	1,029	3	24,146,708
Corporates	1,465,819	220	27	5	1,466,071
Covered Bonds	982,259	0	0	0	982,259
Institutions	4,165,783	1,655,371	167,776	2,482,923	8,471,853
Multilateral Development Banks	230,196	188,785	0	31,978	450,959
Other items	252,736	24,364	0	0	277,100
Public sector entities	0	0	0	0	0
International Organisations	71,712	0	0	0	71,712
Total	27,204,122	5,978,799	168,833	2,514,909	35,866,663

SA Credit Risk by Exposure Class at 31 December 2014 (EUR'000s)	Europe	Americas	MEA	APAC	Total
Central governments or central banks	12,901,497	4,303,955	958	0	17,206,409
Corporates	988,419	103	24	26	988,572

Covered Bonds	1,243,443	651,182	0	0	1,894,625
Institutions	8,316,405	2,231,783	113,868	2,399,892	13,061,947
Multilateral Development Banks	139,322	62,724	0	0	202,046
Other items	250,350	22,955	0	64	273,370
Public sector entities	0	0	0	0	0
International Organisations	0	0	0	0	0
Total	23,839,436	7,272,701	114,850	2,399,982	33,626,969

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

Table 7: Credit Risk Pre CRM - by Counterparty Type

The tables below show the EAD pre CRM by credit exposure class as by counterparty type (EUR’000s).

SA Credit Risk by Exposure Class at 31 December 2015 (EUR’000s)	General governments	Credit institutions	Other financial corporations	Various Balance Sheet Items	Total
Central governments or central banks	24,146,708	0	0	0	24,146,708
Corporates	0	0	1,466,071	0	1,466,071
Covered Bonds	0	982,259	0	0	982,259
Institutions	0	8,471,853	0	0	8,471,853
Multilateral Development Banks	0	450,959	0	0	450,959
Other items	0	0	0	277,100	277,100
Public sector entities	0	0	0	0	0
International Organisations	71,712	0	0	0	71,712
Total	24,218,420	9,905,072	1,466,071	277,100	35,866,663

Table 8: Credit Risk Pre CRM - by Residual Maturity

The tables below show the EAD pre CRM by credit exposure class as by counterparty type (EUR'000s).

SA Credit Risk by Exposure Class at 31 December 2015 (EUR'000s)	Less than 3 months	3 months to 1 year	Over 1 year	Total
Central governments or central banks	12,553,104	3,020,535	8,573,069	24,146,708
Corporates	1,466,071	0	0	1,466,071
Covered Bonds	43,583	92,905	845,771	982,259
Institutions	7,887,536	114,839	469,478	8,471,853
Multilateral Development Banks	18,557	53,861	378,541	450,959
Other items	277,100	0	0	277,100
Public sector entities	0	0	0	0
International Organisations	0	40,067	31,645	71,712
Total	22,245,952	3,322,207	10,298,504	35,866,663

SA Credit Risk by Exposure Class at 31 December 2014 (EUR'000s)	Less than 3 months	3 months to 1 year	Over 1 year	Total
Central governments or central banks	7,185,045	1,198,485	8,822,879	17,206,409
Corporates	988,572	0	0	988,572
Covered Bonds	30,232	478,131	1,386,262	1,894,625
Institutions	13,061,947	0	0	13,061,947
Multilateral Development Banks	0	13,154	188,892	202,046
Other items	273,370	0	0	273,370
Public sector entities	0	0	0	0
International Organisations	0	0	0	0
Total	21,539,166	1,689,770	10,398,033	33,626,969

9.6 Analysis of past due and impaired exposures

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

The following tables provide an analysis of past due and impaired exposures and related provisioning.

The following definitions are used in the tables:

Past due exposure is when a counterparty has failed to make a payment when contractually due.

Impaired exposure is when the entity does not expect to collect all the contractual cash flows when they are due.

Impairment provision is where there is objective evidence that events have detrimentally affected the expected cash flows of an asset or a portfolio of assets. The impairment loss is the difference between the carrying value of the asset and the present value of its estimated future cash flows and recorded as a charge to the profit and loss account and against the carrying amount of the impaired asset. An impairment provision may be either specific or generally assessed.

As at 31 December 2015, BNYM SA/NV had no material financial assets that could have been subject to a specific or general provision. There were no material assets past due greater than 90 days. Please see the table below for the details of past due exposures. BNYM SA/NV did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year to 31 December 2015.

Table 9: Impaired and Past due exposures by counterparty type

	At 31 December 2015 (EUR'000s)	At 31 December 2015 (in %)
Loans and advances to customers	7,899,644	100%
Out of which past due:	5.461	0.07%
Below 91 days	664	0.01%
Between 91 days and 180 days	4,459	0.06%
Between 181 days and 1 year	159	0%
Above 1 year	179	0%
Out of which impaired exposure	0	0%

As at 31 December 2015 there are no past due exposures on investment securities, cash or cash Balances with Central Banks. BNYM SA/NVBNYM SA/NV has not recorded any impairment provision for financial assets in 2015 (2014: € nil).

No past due or impaired exposures existed at 31 December 2014.

9.7 Credit Risk Mitigation

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

9.8 Netting

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

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

During 2015 BNYM SA/NV's sale and repurchase, and reverse sale and repurchase transactions, and securities borrowing and lending were covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements. As of 31 December 2015, no such transactions existed within BNYM SA/NV.

9.9 Collateral Valuation and Management

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

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

9.10 Wrong-Way Risk

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

9.11 Credit risk concentration

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

The risk of credit concentrations is controlled and managed according to client/counterparty as opposed to industry. During the course of year 2015, country limits (in particular for the securities portfolio) were set in place and approved by the CROC and the Executive Committee.

The largest exposure is to The Bank of New York Mellon and is spread across multiple branches and locations which provide some mitigation in the case of the default or rating downgrade of a related party. The remaining placements (including central bank placements) are diversified across a number of banks and geographic locations. In March 2014, a Master Netting Agreement (MNA) was signed between BNYM SA/NV and BNY Mellon for prudential regulatory reporting.

This agreement has a significant positive impact on the credit risk capital requirement and thereby on BNYM SA/NV solvency ratio. Additional MNAs were signed with BNY Mellon Luxembourg SA and BNY Mellon Ireland during the third quarter 2015.

Under European and Belgian bank regulations, all large external individual exposures have to stay below a 25% threshold of their own funds.

During 2015 BNYM SA/NV has experienced certain short-term large exposure breaches in some segregated markets with unmanaged currencies due to volume of activities and several actions have been taken in order to mitigate the risk, amongst others a parental guarantee. Among other remediation measures, this internal PG was replaced early 2016 by an Unfunded Credit Risk Mitigation Agreement.

The Concentration Risk System has been implemented which enables BNYM SA/NV to manage (counterparty and country) Credit Concentration Risk on a day-to-day basis, addressing the requirements of the business and the risk function, and to report Large Exposures to the NBB/ECB in line with applicable Large Exposures regulatory reporting requirements.

Table 10: 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.

Exposure Class (EUR'000s)	31-Dec-15	31-Dec-14
Central governments or central banks	0	0
Corporates	1,164,315	0
Covered Bonds	0	0
Institutions	4,416,123	0
Multilateral Development Banks	0	0
Other items	0	0
Public sector entities	0	0
International Organisations	0	0
Total	**5,580,438**	**0**

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.

Table 11: Exposures covered by guarantees

This table shows by each exposure class the total exposure that is covered by guarantees.

Exposure Class (EUR'000s)	31-Dec-15	31-Dec-14
Central governments or central banks	0	0

Exposure Class (EUR'000s)	31-Dec-15	31-Dec-14
Corporates	0	0
Covered Bonds	0	0
Institutions	183,336	0
Multilateral Development Banks	0	0
Other items	0	0
Public sector entities	0	0
International Organisations	0	0
Total	183,336	0

Using guarantees has the effect of replacing the risk weight of the underling exposure with that of the institution providing the credit protection. Guarantors are primarily rated as investment grade.

9.12 External Credit Rating Agencies (ECAIs)

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

Table 12: Mapping of ECAIs credit assessments to credit quality steps

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

This table shows the mapping of BNYM SA/NV's nominated ECAIs' credit assessments to the credit quality steps.

Credit quality steps	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

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

Table 13: Credit quality step pre CRM by credit exposure class

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

SA Credit Risk by Exposure Class at 31 December 2015 (EUR'000s)	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
Central governments or central banks	21,315,335	1,187,901	1,642,442	0	1,029	0	0	24,146,708
Corporates	554,240	810,279	100,380	88	88	0	996	1,466,071
Covered Bonds	982,259	0	0	0	0	0	0	982,259
Institutions	6,297,008	1,659,749	340,163	81,417	80,653	1,161	11,703	8,471,853
Multilateral Development Banks	0	0	0	0	0	0	450,959	450,959
Other items	0	0	0	0	0	0	277,100	277,100
Public sector entities	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	71,712	71,712
Total	29,148,842	3,657,929	2,082,985	81,505	81,770	1,161	812,470	35,866,663

SA Credit Risk by Exposure Class at 31 December 2014 (EUR'000s)	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
Central governments or central banks	17,193,951	6,087	6,370	1	1	0	0	17,206,410
Corporates	687,542	289,582	620	105	43	0	10,680	988,571
Covered Bonds	1,894,626	0	0	0	0	0	0	1,894,626
Institutions	10,986,977	1,614,894	114,999	94,736	52,096	589	197,656	13,061,947
Multilateral Development Banks	0	0	0	0	0	0	202,046	202,046
Other items	0	0	0	0	0	0	273,370	273,370
Public sector entities	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0	0
Total	30,763,095	1,910,564	121,989	94,841	52,140	589	683,751	33,626,969

Table 14: 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.

SA Credit Risk by Exposure Class at 31 December 2015 (EUR'000s)	Credit Quality Steps 1	2	3	4	5	6	Non CQS	Total
Central governments or central banks	21,498,671	1,187,901	1,642,442	0	1,029	0	0	24,330,044
Corporates	41,467	159,173	100,057	63	0	0	996	301,756
Covered Bonds	982,259	0	0	0	0	0	0	982,259
Institutions	1,689,579	1,615,854	340,163	81,417	80,653	1,161	11,703	3,820,530
Multilateral Development Banks	0	0	0	0	0	0	450,959	450,959
Other items	0	0	0	0	0	0	277,100	277,100
Public sector entities	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	71,712	71,712
Total	24,211,977	2,962,928	2,082,662	81,479	81,683	1,161	812,470	30,234,361

SA Credit Risk by Exposure Class at 31 December 2014 (EUR'000s)	Credit Quality Steps 1	2	3	4	5	6	Non CQS	Total
Central governments or central banks	17,193,951	6,087	6,370	1	1	0	0	17,206,410
Corporates	687,542	289,582	620	105	43	0	10,680	988,571
Covered Bonds	1,894,626	0	0	0	0	0	0	1,894,626
Institutions	10,971,623	1,563,600	114,999	94,736	52,096	589	197,656	12,995,299
Multilateral Development Banks	0	0	0	0	0	0	202,046	202,046
Other items	0	0	0	0	0	0	273,370	273,370
Public sector entities	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0	0
Total	30,747,741	1,859,270	121,989	94,841	52,140	589	683,751	33,560,321

9.13 Counterparty Credit Risk

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

As at 31 December 2015, BNYM SA/NV has derivative positions in the form of FX swaps used to manage liquidity and FX swaps coming from the FX client activity.

Table 15: 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.

Counterparty Credit Risk (EUR'000s)	31-Dec-15	31-Dec-14
Derivatives - Mark to Market Method		
Gross Positive Fair Value of Contracts	225,213	369,119
Potential Future Credit Exposure	307,263	1,740,182
Netting Benefits	-17,670	
Net Current Credit Exposure	514,806	2,109,301
Collateral Held Notional Value	0	880,160
Exposure and Collateral Adjustments	0	-44,960
Net Derivatives Credit Exposure	514,806	1,274,101
SFT - under Financial collateral comprehensive method		
Net Current Credit Exposure	0	7,671,020
Collateral Held Notional Value	0	7,872,469
Exposure and Collateral Adjustments	0	1,217,086
Net SFT Credit Exposure	0	1,015,637
Counterparty Credit Risk Exposure	514,806	2,289,738

9.14 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. The standardised approach uses the external credit rating of each counterparty and includes the effective maturity and exposure at default.

Table 16: Credit valuation adjustment capital charge

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

CVA according to standardised method		
Exposure Value	514,806	329,354
Risk Exposure Amount	69,926	58,120
Capital Requirements	5,594	4,650

10 Market Risk

Market risk is defined as the risk of adverse change to the economic condition of BNYM SA/NV 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, equity prices, credit spreads, prepayment rates, commodity prices and issuer risk associated with the Bank's trading and investment portfolios.

BNYM SA/NV does not run a trading book, but its foreign currency swaps are however classified as held for trading from an accounting perspective only. The Markets FX trading and sales activity is fully back-to-back (on a trade by trade basis) with BNYM London Branch, hence no market risk resides in the trading book of BNYM SA/NV.

BNYM SA/NV is currently exposed to three types of market risk relevant for the calculation of market risk capital requirements: (a) currency risk, (b) interest rate risk and (c) credit spread risk. Counterparty credit risk capital charges that are applied for the same exposures are covered in the sections 7.10 and 7.11.

a)BNYM SA/NV revenues are denominated in a mix of currencies whereas a high proportion of the bank's costs are denominated in Euro. Apart from the risk of currency mismatch between revenues and cost, the bank is not significantly exposed to this risk, since the most significant FX exposures are hedged, resulting in reduced net positions.

b)Interest rate risk in the banking book will also arise from maturity or repricing mismatches and from products that include embedded optionality; the risk could crystallise with changes in interest rate risk/the shape of the yield curve.

c)The securities portfolio bears additional credit spread risk.

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

Table 17: Market Risk – Standardised Approach

Positions subject to Market Risk (EUR'000s)	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Foreign Exchange Risk	74,657	251,481	5,973	20,119
Total	74,657	251,481	5,973	20,119

10.1 Interest Rate Risk – Non-Trading Book

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

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

Interest Rate Risk in the Banking Book (IRRBB) is composed of:

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

Table 18: Interest income sensitivity by currency

	Equity sensitivity	**Income sensitivity**			
Interest scenarios	**Economic value of banking book**	**Effective**	**Coming 12 months**	**Coming months 13 to 24**	**Coming months 25 to 36**
	In € '000	**In € '000**	**In € '000**	**In € '000**	**In € '000**
Parallel increase/(decrease) of interest rate, in bps:					
300	1,134,522	-	(108,259)	(111,152)	(43,545)
200	1,402,393	-	(47,154)	(52,747)	(10,867)
100	1,677,646	-	1,582	188	16,341
No movement	1,958,857	78,063	76,270	64,062	54,489
(100)	2,074,627	-	100,745	64,790	42,639
(200)	2,070,985	-	100,934	63,202	38,546
(300)	2,071,377	-	101,741	63,926	39,720

For regulatory purposes (COREP), an interest rate sensitivity analysis is prepared on a quarterly basis as shown below this paragraph. The economic value of the banking book is determined by discounting the future cash flows for assets and liabilities present in this book, in accordance with the provisions of NBB Circular PPB-2006-17-CPB and related amendments. The sensitivity of the economic value to interest rate shocks is presented in the first column, whereas the extent the net interest income is sensitive to interest rate movements compared to the amount in 2015 is presented in the columns to follow.

11 Operational Risk

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

Key operational risks for BNYM SA/NV include:

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

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

Operational Risk officers collect and assess Operational Risk events, and define, with the business, operational risk scenarios.

11.1 Operational Risk Management Framework

BNYM SA/NV has an embedded operational risk assessment and control framework, consistent with the BNY Mellon Group framework. The Operational Risk management Framework (ORMF) defines roles and responsibilities, using the three lines of defence model as a foundation. The ORMF within BNYM SA/NV relies on a culture of risk awareness, a clear governance structure, well defined policies, procedures and reporting and suitable tools for reporting and monitoring to effectively identify, manage, mitigate, monitor and report the risks in an organised way to the appropriate governance body.

BNYM SA/NV's risk appetite statement recognizes the inherent nature of operational risk and the reliance on its ORMF to mitigate it.

BNYM SA/NV has several tools to aid in understanding and monitoring its operational risk including Operational Risk Events (ORE), Risk Control Self Assessments, Key Risk Indicators (KRI) and Operational Risk Scenario Analysis.

BNYM SA/NV utilizes a global platform for monitoring and reporting operational risk, the Risk Management Platform (RMP). Monitoring and reporting of operational risks occur within the business, entity and EMEA-region risk oversight functions as well as decision-making forums such as Business Risk Committees and BNYM SA/NV Risk Management Committee. Current issues, emerging and top risks, adverse KRIs and OREs (>$10k) are reported to the BNYM SA/NV Risk Management Committee (RMC) in Branch, Subsidiary and Head Office Risk Reports.

BNYM SA/NV utilizes comprehensive policies and procedures designed to provide a sound operational environment. The Corporate operational risk policies are periodically reviewed and changes are applied across the organization and adopted by all businesses including BNYM SA/NV. The main emphasis of the updates was to define and specify the Legal Entity Risk Officer's role and responsibilities.

BNYM SA/NV has dedicated operational risk managers in Brussels and each of the branches and subsidiaries where there are operational activities. Besides the operational risk function, among others Technology Support Group (TSG), Information Risk Management (IRM) and Business Continuity Planning in BNYM SA/NV, EMEA and within BNY Mellon globally also ensure that systems, third party vendors managing offices, where staff can continue to operate, if main premises are affected, and procedures are in place to enable processes to function smoothly, or with the least amount of disruption in case of unforeseen events.

The IRM team is responsible for the identification and management of risks associated with technology, including identify and access management, the review of major applications and IT security. IRM has recruited a dedicated resource based in Brussels and is supported by staff in London and BNY Mellon in general.

The Business Continuity Planning (BCP) function of BNYM SA/NV is managed from BNY Mellon London. This function is responsible for the identification and management of risks and is responsible for planning for the continued service in the face of events or disruptions. The BCP function has clear escalation processes and plans available, for instance a Crisis Management Team (CMT) may be set up to oversee the issue, while the Communication Task Force (CTF) is responsible for communicating with employees, clients and other stakeholders. Operational staff (business plan owners) is responsible for identifying the need, and maintaining a business continuity plan for their specialist area. These plans set out information such as recovery requirements, alternative sites and training and evacuation procedures. Besides the BCP function of BNY Mellon, Crisis Management teams are organized for each location.

Decisions to control, transfer, accept or avoid risks are conducted through a combination of business and legal entity governance bodies in line with the hybrid organization structure of BNY Mellon. For the operational risks of BNYM SA/NV, the key governing bodies include the Business Acceptance Committees of Asset Servicing, Corporate Trust, Global Markets and Global Collateral Services, and locally, BNYM SA/NV Risk Management Committee, BNYM SA/NV Executive Committee and BNYM SA/NV Risk Committee.

11.2 Capital Resource Requirement

Capital requirement for operational risk Pillar 2 (using an internal hybrid model) resulted in an amount of €158 Mio (2014: €133 Mio), versus the Pillar 1 calculation of €77 Mio (2014: €83Mio).

12 Leverage Ratio

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

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

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

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

Leverage ratio calculation for BNYM SA/NV as of December, 31 2015 is presented in the table below:

Table 19: Leverage ratio calculation

This table shows the components of the leverage ratio exposure, including asset exposure values, off-balance items and adjustments.

Regulatory leverage ratio exposures	**31-Dec-15**
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	36,440,968
Transitional provisions (de-recognised unrealised gains on AFS)	-74,199
Deductions from Tier 1 capital stemming from asset deductions (intangibles, goodwill)	-564,936
Total on-balance sheet exposures (excluding derivatives and SFTs)	**35,801,833**
Derivative exposures	
Replacement cost associated with derivatives transactions	213,810
Add-on amounts for PFE associated with derivatives transactions	300,996
Exposure determined under Original Exposure Method	**0**
Total derivative exposures (sum of lines 4 to 5a)	**514,806**
Securities financing transaction exposures	
SFT exposure according to Article 220 of CRR	0
SFT exposure according to Article 222 of CRR	0
Total securities financing transaction exposures	**0**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	64,829

Adjustments for conversion to credit equivalent amounts	0
Total off-balance sheet exposures (sum of lines 17 to 18)	**64,829**
Capital measure	
Tier 1 capital	2,053,681
Exposures of financial sector entities according to Article 429(4) 2nd of CRR	0
Total Exposure	35,742,333
Leverage Ratio	**5.7%**

Note: CRR (Regulation (EU) NO. 575/2013)

Table 20: Leverage exposures reconciliation

This table shows the reconciliation between the relevant leverage ratio exposures and the accounting total assets.

Reconciliation leverage ratio exposures to accounting total assets

Leverage ratio on-balance sheet exposures	
On-balance sheet items after transitional provisions adjustments	35,801,833
Replacement cost associated with derivatives transactions	213,810
Total (A)	**36,015,643**
Reconciliation items	
Reversal of deductions from Tier 1 capital	564,936
Reversal of regulatory netting on derivatives replacement cost	11,403
Reversal of deferred tax liability netting on intangible asset deduction	15,451
On-balance sheet netting (de-netted under leverage)	-1,187,861
Negative liabilities taken as credit risk exposures	-2,695
Total (B)	**-598,766**
Accounting total assets (A) + (B)	**35,416,878**

The Board is committed to ensuring that the BNYM SA/NV is well capitalised at all times. The level of regulatory capital held by BNYM SA/NV shall always be in excess of current regulatory requirements and shall not fall below levels approved by the Board. Leverage ratio requirements shall be monitored and shall not fall below 3% in 2016, increasing to 3.5% in 2017 and 4% in 2018, as measured on a quarter end basis. These risk appetite levels will be calibrated once final regulatory guidance has been issued and are subject to review in the forthcoming years.

The leverage ratio for BNYM SA/NV will be monitored as part of the regulatory reporting process and the risk appetite limit is noted above. The internal (risk appetite) and external limits with respect to the leverage ratio requirements for BNYM SA/NV will be proposed once the final regulatory definition has been issued for the binding requirement starting 1 January 2018. The leverage ratio risk appetite limit has been set at 3% from 2016 and this will transition to an increased minimum of 3.5% in 2017 and 4% from 2018, as measured on a quarter end basis. These risk appetite levels will be calibrated once final regulatory guidance has been issued and are subject to review in the forthcoming years. The leverage ratio is reported internally on a regular basis for monitoring purposes and a full calculation of exposure and capital is performed quarterly per the COREP process.

13 Remuneration Disclosure

13.1 Governance

The Board of The Bank of New York Mellon SA/NV (“BNYM SA/NV”) is responsible for the remuneration policy statement and its application. The Remuneration Committee (“Rem Co”) of the Board reviews the remuneration policy statement annually in light of the risk appetite, the values and long term interests of BNYM SA/NV, as well as the applicable laws and regulations. The Rem Co also reviews annually the variable compensation awards of all staff that have a material impact on the risk profile of BNYM SA/NV, before submitting the proposals to the Board (in session with the non-executive directors only) for approval.

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

The Rem Co is assisted in its task by BNY Mellon’s EMEA Remuneration Governance Committee (“ERGC”) which was set-up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon’s EMEA businesses, including BNYM SA/NV. Remuneration policy decisions of BNYM SA/NV including its branches and subsidiaries rest however with the Board, which meets at least quarterly and also approves the year-end compensation awards of its regulated staff members. The Rem Co met five times during 2015. Deferred awards in BK shares or Restricted Share Units also require the approval of the Human Resources and Compensation Committee (HRCC) of BNY Mellon, since it functions as the remuneration committee of the ultimate shareholder of BNYM SA/NV.

In the course of 2015, the remuneration policy statement was amended to reflect the situations that can trigger ex-post risk adjustment (malus or clawback).

13.2 Aligning Pay with Performance

BNY Mellon’s compensation philosophy, which is an integral part of BNYM SA/NV’s remuneration policy statement, is to offer a total compensation opportunity that supports BNY Mellon’s values: client focus, integrity, teamwork and excellence. In support of this philosophy, variable compensation is regularly used as a means of recognising performance.

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

13.3 Fixed Remuneration

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

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

Employees who 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.

13.4 Variable Compensation Funding and Risk Adjustment

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

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

BNYM SA/NV makes use of the robust performance appraisal system in place at BNY Mellon to document an individual’s performance. This contains not only agreed and individualized business goals, but also a compulsory risk management goal and a compliance and ethics goal. The behaviour of previously identified staff members with regard to risk was in 2015 evaluated through a risk culture summary scorecard, detailing any issues related to risk, compliance or audit issues.

13.5 Ratio between Fixed and Variable Pay

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

13.6 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) 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.

13.7 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 BNY Mellon's overall annual financial performance.

13.8 Quantitative Disclosures

The tables below provide details of the aggregate remuneration of senior management and Material Risk Takers (MRT) for BNYM SA/NV for the year ended 31 December 2015.

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

Table 21: Aggregate Remuneration Expenditure for MRTs in 2015 by Business (EUR'000s)

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

Aggregate remuneration expenditure for MRTs by business	BNYM SA/NV		
	Senior manager[1]	Other[3]	Total
Total remuneration[2]	6,553	6,367	12,920

[1] Senior management is comprised of MRTs identified under Article 3.3 of the EBA RTS for identifying MRTs, consisting of Directors other Significant Influencing Functions and those holding the corporate title of Executive Vice President.

[2] Includes base salary and other cash allowances, plus any cash incentive and the total of any deferred awards made in BNY Mellon shares valued at the date of grant or deferred cash

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

Table 22: Aggregate Remuneration Expenditure for MRTs by Remuneration Type (EUR'000s)

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

Aggregate remuneration expenditure for MRTs by remuneration type	BNYM SA/NV		
	Senior manager[1]	Other MRTs	Total
Number of beneficiaries	19	34	53
Fixed remuneration[4]	4,811	4,958	9,769
Total variable remuneration (EUR'000s)	1,742	1,409	3,151

Variable cash (EUR’000s)	893	960	1,853
Variable shares (EUR’000s)	849	449	1,298

[4] Fixed Remuneration includes base salary and any cash allowances

Table 23: Total Deferred Variable Remuneration for MRTs Outstanding from Previous Years

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

Total deferred remuneration for MRTs outstanding from previous years	BNYM SA/NV		
	Senior manager[1]	Other MRTs	Total
Number of beneficiaries	34	19	53
Total deferred variable remuneration outstanding from previous years (EUR’000s)	2,163	1,123	3,286
Total vested (EUR’000s)	0	0	0
Total unvested (EUR’000s)	2,163	1,123	3,286

[1] Senior management is comprised of MRTs identified under Article 3.3 of the EBA RTS for identifying MRTs, consisting of Directors other Significant Influencing Functions and those holding the corporate title of Executive Vice President.

Table 24: Number and Value of New Sign-on and Severance Payments made during 2015

This table shows the number and value of new sign-on and severance payments made during 2015.

Number and value of new sign-on and severance payments	BNYM SA/NV		
	Senior manager[1]	Other MRTs	Total
Number of sign-on payments awarded during 2015	0	2	2
Value of sign-on payments awarded during 2015 (EUR’000s)	0	72	72
Number of severance payments awarded during 2015	0	0	0
Value of severance payments awarded during 2015 (EUR’000s)	0	0	0
Highest individual severance payment awarded during 2015 (EUR’000s)	0	0	0

Table 25: 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 ≥ €1m	**BNYM SA/NV Total Number of Individuals**
EUR 1m – EUR 1.5m	0
EUR 1.5m – EUR 2m	0

Appendix 1 Other Risks

Liquidity Risk

BNY Mellon defines liquidity as the ability to access funding, convert assets to cash quickly and efficiently, or to roll over or issue new debt, especially during periods of market stress, in order to meet its short-term (up to one year) obligations.

BNY Mellon defines Funding Liquidity Risk as the risk that it cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flow and collateral needs without affecting daily operations or financial conditions. Liquidity risks can arise from funding mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputational risks also can affect BNY Mellon's liquidity risk profile and are considered in the liquidity risk management framework.

BNY Mellon defines Intraday Liquidity Risk as the risk that it cannot access funds during the business day to make payments or settle immediate obligations, usually in real time, primarily due to disruptions or failures. The BNY Mellon Intraday Liquidity Policy is specifically dedicated to managing these risks.

BNYM SA/NV aims to be self-sufficient for liquidity and seeks to maintain a very liquid balance sheet at all times. Its balance sheet is liability driven in nature primarily due to the nature of client deposit taking activity. BNYM SA/NV does not originate significant assets from lending activities, and therefore funding assets are not a significant use of liquidity. While sizable overdrafts can appear periodically, large deposits offset these amounts. Significant deposit balances are transactional in nature and exhibit a degree of "stickiness" and represent the transactional nature of the client relationship.

Business and Financial Risk

Legal Entity and Business Risk

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

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

Regulatory and Compliance Risk

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

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

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

Reputation Risk

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

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

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

Legal Risk

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

BNY Mellon'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. The legal risk associated with Corporate, Client and Supplier legal risk are considered low, based on historical and current experience and this is not envisaged to change on a business as usual basis.

Settlement Risk

Settlement risk is the probability of loss arising from the failure of one counterparty to settle its side of a transaction, thus preventing other counterparties from settling their commitments. It tends to occur when payments are not exchanged simultaneously such as in a multi-leg Swap trade.

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

Non-Trading Book Exposures in Equities

BNYM SA/NV did not have any non-trading book exposures in equities as at 31 December 2015 and during the reporting period.

Securitisation Risk

Securitisation risk is the risk that the capital resources held in respect of assets that BNYM SA/NV has securitised is insufficient to cover associated liabilities. As at 31 December 2015 and during the reporting period BNYM SA/NV did not have any securitisation risk-weighted exposure.

Outsourcing Risk

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

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

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

Business Risk

Business risk is the risk of loss that the business environment poses to BNYM SA/NV'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.

The principal business risk for BNYM SA/NV is within the asset servicing and alternative investment services businesses as this is mainly driven by the fact that fees are significantly based on the client's net asset value for fund accounting and custody. As business risk is difficult to assess, it has been defined as the residual risks that confronts BNYM SA/NV after taking all known and quantifiable risks into consideration.

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

Concentration Risk

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

BNYM SA/NV manages concentration risk as part of its credit, market, operational and liquidity management policies.

Group Risk

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

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

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

Model Risk

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

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

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

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

BNY Mellon 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 BNYM SA/NV, 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. It can also be due to exposure to sovereign and economic debts in EMEA countries such as Italy, Russia, and the Eurozone.

Pension Obligation Risk

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

Appendix 2 - Glossary of Terms

The following terms are used in this document:

ALCO: Asset and Liability Committee

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

BNY Mellon: The Bank of New York Mellon

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 a counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures over a one-year time horizon.

Financial Conduct Authority (FCA): The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms, prudential standards in the UK. It has a strategic objective to ensure that the relevant markets function well

High Level Assessment (HLA)**:** An assessment of the quality of controls in place to mitigate risk and residual risk. Residual risk is assessed as high, moderate to high, moderate, moderate to low and low with direction anticipated.

Institutions: Under the Standardised approach, Institutions are classified as credit institutions or investment firms.

Internal Capital Adequacy Assessment Process (ICAAP): The group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.

ISDA Master Agreement: A document that outlines the terms applied to a derivatives transaction between two parties. Once the two parties have agreed to the standard terms, they do not have to renegotiate each time a new transaction is entered into.

Key Risk Indicator (KRI): Key Risk Indicators are used by business lines to evaluate control effectiveness and residual risk within a business process.

Master Netting Agreement: An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract.

Pillar 3: The part of Basel III that sets out information banks must disclose about their risks, the amount of capital required to absorb them and their approach to risk management. The aim is to encourage market discipline and improve the information made available to the market.

Prudential Regulation Authority (PRA): the statutory body responsible for the prudential supervision of banks, building societies, credit unions insurers and major investment firms in the UK. The PRA is a subsidiary of the Bank of England.

Residual maturity: The period outstanding from the reporting date to the maturity or end date of an exposure.

Risk appetite: A definition of the types and quantum of risks to which the firm wishes to be exposed.

Risk and Control Self-Assessment (RCSA): Risk and Control Self-Assessment is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls.

Risk Governance Framework: BNYM SA/NV's risk governance framework has been developed in conjunction with BNY Mellon requirements. Key elements of the framework are:

- Formal governance committees, with mandates and 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 Management Committee (RMC): A committee which meets on a monthly basis to provide governance on risk related items arising from the business of the group

Risk Weighted Assets (RWAs): Assets that are adjusted for their associated risks using weightings established in accordance with CRD IV requirements

Standardised approach: Method used to calculate credit risk capital requirements using the Basel III, CRD IV, CRR model supplied by the BCBS. All financial institutions must opt to either use the 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

SFT: Securities Financing Transactions

Tier 2 capital: A component of regulatory capital under Basel III, mainly comprising qualifying subordinated loan capital, related non-controlling interests and eligible collective impairment allowances

Value-at-risk VaR: A measure of the potential loss at a specified confidence level from adverse market movements in an ordinary market environment

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The Bank of New York Mellon SA/NV is a Belgian limited liability company (société anonyme/naamloze vennootschap), authorized and regulated as a significant credit institution by the National Bank of Belgium (NBB) and the European Central Bank (ECB) under the Single Supervisory Mechanism and by the Belgian Financial Services and Markets Authority, and a subsidiary of The Bank of New York Mellon, a banking corporation organized under the laws of the State of New York, with head office at One Wall Street, New York, NY 10286, U.S.A.