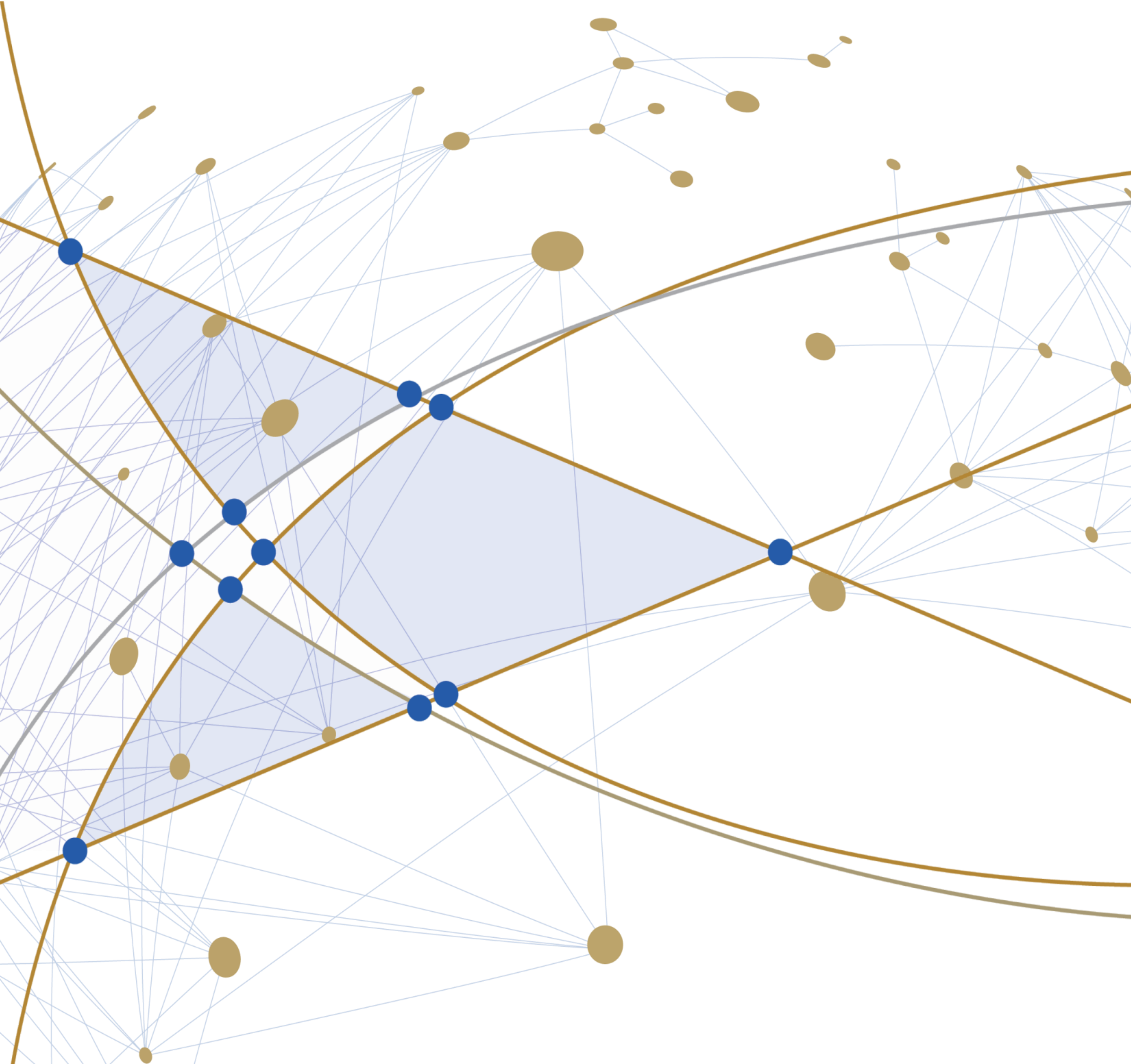

# The Bank of New York Mellon (International) Limited

## PILLAR 3 DISCLOSURE
## DECEMBER 31, 2016

BNY MELLON | Invested

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# 1 Scope of Application

## 1.1 Disclosure policy

This document comprises the The Bank of New York Mellon (International) Limited (BNYMIL or the Company) Pillar 3 disclosures on capital and risk management at 31 December 2016. These Pillar 3 disclosures are published in accordance with the requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to together as CRD IV, which came into effect on 1 January 2014. CRD IV has the effect of implementing the international Basel III reforms of the Basel Committee on Banking Supervision within the European Union. The Pillar 3 disclosure requirements are contained in Part Eight of the CRR, in particular articles 431 to 455.

Pillar 3 disclosures are required for a consolidated group and for those parts of the group covered by CRD IV.

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

Unless indicated otherwise, information contained within this document has not been subject to external audit.

## 1.2 The Basel III Framework

Basel III is the international banking accord intended to strengthen the measurement and monitoring of financial institutions' capital. The Basel III framework was implemented in the European Union through the Capital Requirements Directive (CRD) and establishes a more risk sensitive approach to capital management. It is comprised of three pillars:

Pillar 1 – Minimum capital requirement:

Establishes rules for the calculation of minimum capital for credit risk, counterparty credit risk, market risk and operational risk and capital resources requirements

Pillar 2 – Supervisory review process:

Requires firms and supervisors to undertake an internal capital adequacy assessment process to determine whether the financial institution needs to hold additional capital against risks not adequately covered in Pillar 1 and to take action accordingly

Pillar 3 – Market discipline:

Complements the other two pillars and effects market discipline through public disclosure showing an institution's risk management policies, approach to capital management, its capital resources and an analysis of its credit risk exposures

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content.

## 1.3 Purpose of Pillar 3

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

- Credit risk
- Counterparty credit risk
- Market risk
- Credit valuation adjustment
- Securitisations
- Operational risk

These Pillar 3 disclosures only focus on those risk and exposure types relevant to BNYMIL.

BNYMIL includes both quantitative and qualitative disclosures to show the relevant information and describe its approach to capital management, its capital resources and an analysis of its credit risk exposures. The disclosures also include, where appropriate, comparative figures for the prior year and an analysis of the more significant movements to provide greater insight into its approach to risk management.

## 1.4 Non-material, Proprietary or Confidential Information

In accordance with CRD IV, 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 BNYMIL 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 the company's 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 confidential.

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

## 1.5 Frequency and Means of Disclosure

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

This policy will be periodically reassessed and updated in light of market developments associated with Pillar 3.

Disclosures are published on The Bank of New York Mellon Corporation group website (www.bnymellon.com/investorrelations/filings/index.html).

## 1.6 Board Approval

These disclosures were approved for publication by BNYMIL's Board of Directors on 21 March 2017. The Board has verified that they are consistent with formal policies adopted regarding production and validation and are satisfied with the adequacy and effectiveness of the risk management arrangements.

## 1.7 Business and Future Developments

The Board of Directors periodically reviews the strategy of the Company and the associated products and services it provides to clients.

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

Historically the Company's operations were performed by staff contracted with the London Branch of The Bank of New York Mellon. However, during 2016 BNYMIL executed a series of Service Level Agreements with affiliated service providers which enabled it to move to a fully outsourced operating model. The resulting impact on the 2016 financial statements is that expenses previously recorded as direct staff costs are now recorded as intercompany service charges. In order to reflect the commercial nature of this arrangement, expenses are recharged on a cost plus basis.

On 8th December 2016 BNY Mellon Holdings (UK) Limited transferred its investment in BNYMIL to BNY International Financing Corporation (BNYIFC) such that BNYMIL became a direct subsidiary of BNYIFC, a US legal entity. Consequently, consolidated supervision has moved from the level of BNY Mellon Holdings (UK) Limited to the level of BNYMIL. The table below shows BNYMIL's capital position both on a consolidated and a solo basis. (Thus the consolidated basis is at the level of BNY Mellon Holdings (UK) Limited for 2015 and at the level of BNYMIL for 2016.) During 2016, BNYMIL's performance was in line with its risk appetite.

## 1.8 Key Metrics

The following risk metrics reflect BNYMIL's risk profile:

**Table 1: Capital ratios**

| Own Funds (£m) | Consolidated | | BNYMIL Solo | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Available capital (£m)**[1] | | | | |
| Common Equity Tier 1 (CET1)* capital | 412 | 389 | 412 | 142 |
| Tier 1 capital | 412 | 389 | 412 | 142 |
| Tier 2 capital | 75 | 115 | 75 | 75 |
| Total capital | 487 | 504 | 487 | 217 |
| **Risk-weighted assets (£m)**[2] | | | | |
| Total risk-weighted assets (RWA) | 793 | 1,290 | 765 | 680 |

| Own Funds (£m) (continued) | Consolidated | | BNYMIL Solo | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Risk-based capital ratios as a percentage of RWA** | | | | |
| CET1 ratio | 51.9% | 30.2% | 53.9% | 20.8% |
| Tier 1 ratio | 51.9% | 30.2% | 53.9% | 20.8% |
| Total capital ratio | 61.4% | 39.1% | 63.7% | 31.9% |
| **Additional CET1 buffers requirements as a percentage of RWA** | | | | |
| Capital conservation buffer requirement | 0.625% | N/A | 0.625% | N/A |
| Total of bank CET1 specific buffer requirements | 0.625% | N/A | 0.625% | N/A |
| CET1 available to meet buffers after meeting the bank's minimum capital requirements, and, if applicable, TLAC requirements | 39.8% | 26.9% | 47.3% | 14.9% |
| **Basel III leverage ratio** | | | | |
| Total Basel III leverage ratio exposure measure (£m) | 6,805 | 3,384 | 6,925 | 3,123 |
| Basel III leverage ratio | 6.1% | 10.6% | 5.9% | 4.1% |
| **Liquidity Coverage Ratio** | | | | |
| Total HQLA (£m) | 4,840 | 2,627 | 4,840 | 2,624 |
| Total Net Cash Outflow (£m) | 1,451 | 437 | 1,451 | 718 |
| LCR ratio | 334% | 601% | 334% | 366% |
| **Net Stable Funding Ratio** | | | | |
| Total Available Stable Funding (£m) | 2,314 | 1,372 | 2,314 | 1,113 |
| Total Required Stable Funding (£m) | 151 | 171 | 151 | 110 |
| NSFR ratio | 1,534% | 802% | 1,534% | 1,015% |

[1] *2016 capital as stated is after the inclusion of audited profits for the year.*
[2] *2016 RWAs include the latest operational risk RWAs, updated in line with the audited results for the year.*

Thus the common equity tier 1, total tier 1 and total capital ratios remain in excess of the minimum regulatory requirement of 4.5%, 6.0% and 8.0% respectively.

## 1.9 Company Description

BNY Mellon Group (BNY Mellon) is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As at 31 December 2016, BNY Mellon had $29.9 trillion in assets under custody and/or administration, and $1.6 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

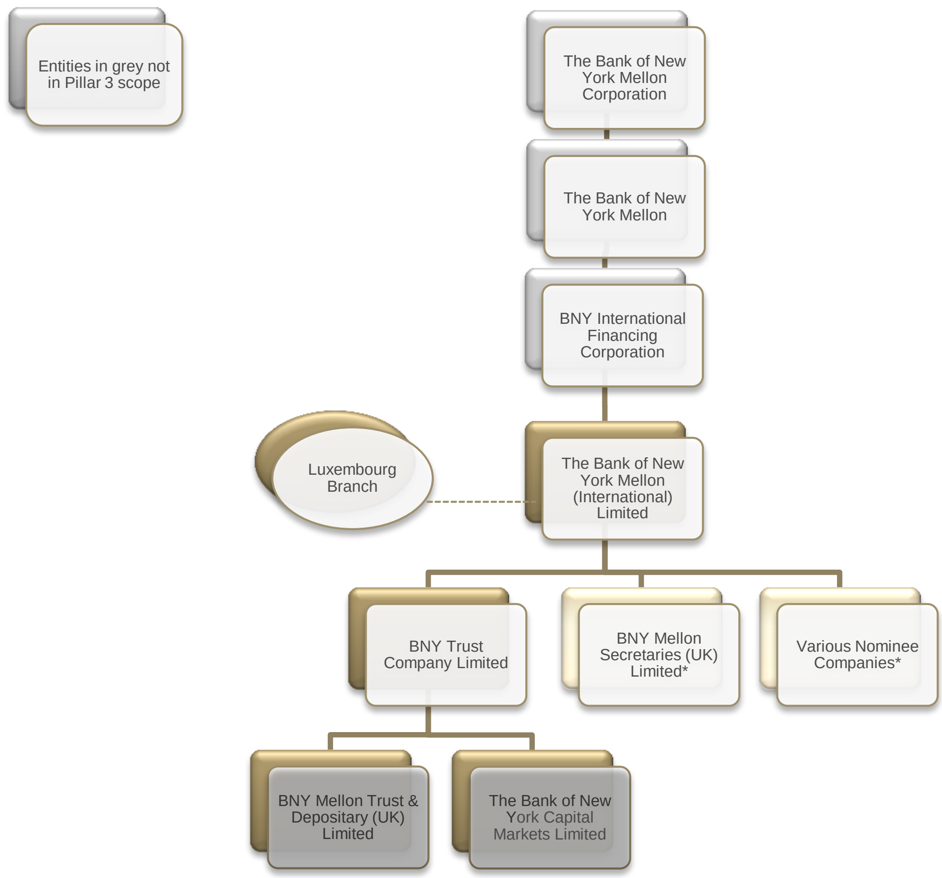
BNYMIL is a private limited company incorporated in the UK. As at 31 December 2016, BNYMIL had £522 billion in assets under custody. It is a wholly-owned subsidiary of BNYIFC, a holding company with investments in banking and non-banking entities. BNYIFC is a wholly-owned US-regulated subsidiary of The

Bank of New York Mellon, the main banking entity of BNY Mellon. BNYMIL is regulated by the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA).

BNYMIL is the ultimate parent of BNY Mellon Trust & Depositary (UK) Limited and BNY Trust Company Limited, its main subsidiaries, and through the former provides trustee services principally in the UK to both authorised and unauthorised collective investment schemes. BNY Mellon Trust and Depositary (UK) Limited and BNY Trust Company Limited are both authorised and regulated by the FCA. Both subsidiary entities are incorporated in the UK.

The Board is not aware of any material impediments to the transfer of own funds or repayment of liabilities between the parent undertaking and its subsidiaries. The corporate structure of BNYMIL is illustrated in Figure 1.

**Figure 1: BNYMIL corporate structure at 31 December 2016**




## 1.10 Core Business Lines and Critical Economic Functions

BNYMIL's sole core business line is Asset Servicing. Within this core business line, BNYMIL provides a number of critical economic functions (CEFs[1]) including Custody Services, Transfer Agency and Fund Accounting. BNYMIL also conducts Trustee Services activity through its subsidiary, BNY Mellon Trust & Depositary (UK) Limited and also provides fiduciary services through the Luxembourg Branch. However, the nature of the Trustee Services activity does not meet the criteria for designation as a CEF. An overview of the three CEFs and Trustee Services is provided below.

[1] A critical economic function is defined as "a function whose disruption or withdrawal could have an adverse material impact on financial stability in the United Kingdom", pursuant to the PRA's Supervisory Statement SS10/14.

### 1.10.1 Custody Services

Custody services are provided to customers (or their advisors) to assist with holding and keeping track of their securities. Specifically, BNYMIL's custody services include the following functions:

- Safekeeping of instruments either in physical form or within a securities settlement system or central securities depository
- Maintaining records of the securities being held and the securities being bought and sold
- Presenting securities either electronically or on occasion physically to, and receiving securities from, a clearing and settlement platform
- Collecting income earned on the securities such as dividends and interest
- Delivering issuer communications to the investor
- Preparing reports for the investor, such as settlement reports, income collection reports, etc.

### 1.10.2 Transfer Agency

Transfer agency is contracted by customers, including pension funds, mutual funds and asset managers, to maintain records of investors (share or unit holders), account balances and transactions, to cancel and issue share/unit certificates, perform cash processing, provide call centre services and to process investor mailings.

### 1.10.3 Fund Accounting

Fund accounting provides daily fund accounting and fund administration services to UK and Irish-based asset managers, fund distributors and life companies. The fund types serviced are unit trusts, open-ended investment companies (OEICs), money market funds, charity funds, life and pension funds, common investment funds and investment trusts. The asset types serviced include equity, fixed income, cash instruments, derivatives and fund of funds. Net Asset Value (NAV) is calculated at each valuation point, usually daily, and financial statements are prepared usually on a semi-annual and annual basis for publication to fund investors.

### 1.10.4 Trustee Services

Trustee services are primarily performed by BNY Mellon Trust & Depositary (UK) Limited, although a very small number of customers contract for trustee services with BNYMIL due to a customer requirement for its trustee to be a licensed bank. Trustee services are provided to UK and Irish clients, predominantly UK and Irish domiciled funds.

Trustee Services' role is one of oversight and effectively represents the interests of the unit holders of the funds. In fulfilling its fiduciary responsibilities, Trustee Services performs a number of functions:

Reconciliation – between internal and external cash and custody accounts and between internal BNY Mellon systems from other service offerings. For example, reconciliations are performed between fund accounting and transfer agency systems in order to enhance control and quality of service

Investment and borrowing powers – daily intraday monitoring of investment and borrowing limits and other bespoke client reporting

Liquidity analysis – processing and analysis of the liquidity of clients' funds with the aim of ensuring redemptions can always be covered by the assets of the scheme

NAV reconstruction – independent reconstruction of NAV calculations and identification of potential errors through expertise and bespoke systems

## 1.11 Legal Entities

BNYMIL's core business line and critical economic functions are conducted through several legal entities organised in various jurisdictions.

### 1.11.1 The Bank of New York Mellon (International) Limited

BNYMIL provides asset servicing to clients, particularly custody and investment administration services. Although BNYMIL has a banking license, it does not actively seek deposits, provide credit facilities or provide retail banking services, only doing so as a result of its core activity. These activities are exempt from a credit consumer license and do not form part of the core activities of BNYMIL.

BNYMIL also has permissions for the following activities:

Accepting deposits

Advising on investments (except on pension transfers and pension opt-outs)

Agreeing to carry on a regulated activity

Arranging deals in investment

Arranging safeguarding and administration of assets

Causing dematerialised instructions to be sent

Dealing in investments as both agent and principal

Making arrangements with a view to transactions in investments

Safeguarding and administration of assets (without arranging)

Depository services (including fiduciary services in the Luxembourg Branch)

### 1.11.2 The Bank of New York Mellon (International) Limited Luxembourg Branch

The Bank of New York Mellon (International) Limited Luxembourg Branch provides administration services, including fund services for collective investment schemes (CISs), transfer agency and fund accounting.

### 1.11.3 BNY Mellon Trust & Depositary (UK) Limited

BNY Mellon Trust & Depositary (UK) Limited (BNYMTDUKL) is a private limited company incorporated in the UK and authorised by the FCA to carry on business as a depositary. BNYMTDUKL's primary activity is to perform trustee and depositary services for CISs. BNYMTDUKL also performs limited custody services. BNYMTDUKL has a fiduciary responsibility for arranging safekeeping of assets and for facilitating the creation and cancellation of units / shares. The trustee is not responsible for appointing the fund accountant or transfer agent.

During 2017 the Company expects to further progress the transfer agency business transformation programme, the full benefit of which will be seen in 2018. Further changes to the operating model will be actioned including the purchase by the Company of the business of its subsidiary, BNY Mellon Trust & Depositary (UK) Limited, which will improve profitability within the Company. In addition, further growth is expected to the balance sheet as custody clients related to the UK trust and depositary business transfer into the Company from other Group entities.

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# 2 Own Funds

Own funds comprise tier 1 and tier 2 capital less deductions. This section provides an overview of the regulatory balance sheet and composition of BNYMIL's regulatory own funds. 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.

BNYMIL'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 excluding the cash flow hedging reserve, less specified regulatory adjustments

**Tier 2 capital** which is a component of regulatory capital under Basel III, mainly comprising qualifying subordinated loan capital, and eligible collective impairment allowances

### Table 2: Regulatory adjustments

These tables show a reconciliation of BNYMIL's balance sheets on a consolidated and solo basis prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: Reduced Disclosure Framework (FRS 101) and the regulatory balance sheet prepared under prudential rules. The regulatory balance sheet forms the basis for the calculation of regulatory capital requirements.

| BNYMIL (Consolidated) at 31 December 2016 (£m) | Consolidated Balance Sheet | Regulatory adjustments | Regulatory Balance Sheet |
|---|---|---|---|
| **Assets** | | | |
| Cash in hand and on demand balances at central banks | 4,856 | 0 | 4,856 |
| Loans and advances to banks | 1,633 | 38 | 1,671 |
| Loans and advances to customers | 115 | 0 | 115 |
| Financial instruments – available for sale | 0 | 19 | 19 |
| Investments | 244 | (239) | 5 |
| Intangible assets | 0 | 0 | 0 |
| Tangible fixed assets | 0 | 0 | 0 |
| Prepayments and accrued income | 21 | 0 | 21 |
| Other assets | 79 | 6 | 85 |
| **Total assets** | **6,948** | **(176)** | **6,772** |
| **Liabilities** | | | |
| Deposits by banks | 1,618 | 6 | 1,624 |
| Customer accounts | 4,634 | (41) | 4,593 |
| Other liabilities | 17 | 31 | 48 |
| Accruals and deferred income | 12 | 0 | 12 |
| Current and deferred tax liabilities | 0 | 0 | 0 |
| Subordinated loan | 75 | (75) | 0 |
| Provision for liabilities and commitments | 0 | 0 | 0 |
| **Total liabilities** | **6,356** | **(79)** | **6,277** |

| BNYMIL (Consolidated) as at 31 December 2016 (£m) (continued) | Consolidated Balance Sheet | Regulatory adjustments | Regulatory Balance Sheet |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Called up share capital | 520 | 0 | 520 |
| Reserves* | 72 | (8) | 64 |
| Deductions from capital | 0 | (172) | (172) |
| Tier 2 capital | 0 | 75 | 75 |
| **Capital and reserves** | **592** | **(105)** | **487** |
| **Total equity and liabilities** | **6,948** | **(184)** | **6,764** |

**Difference relates to restricted stock excluded from capital.*

| BNYMIL (Solo) at 31 December 2016 (£m) | Solo Balance Sheet | Regulatory adjustments | Regulatory Balance Sheet |
|---|---|---|---|
| **Assets** | | | |
| Cash in hand and on demand balances at central banks | 4,855 | 0 | 4,855 |
| Loans and advances to banks | 1,632 | 40 | 1,672 |
| Loans and advances to customers | 115 | 0 | 115 |
| Financial instruments – available for sale | 0 | 20 | 20 |
| Investments | 198 | (193) | 5 |
| Intangible assets | 0 | 0 | 0 |
| Tangible fixed assets | 0 | 0 | 0 |
| Prepayments and accrued income | 21 | 0 | 21 |
| Other assets | 79 | 8 | 87 |
| **Total assets** | **6,900** | **(125)** | **6,775** |
| **Liabilities** | | | |
| Deposits by banks | 1,618 | 7 | 1,625 |
| Customer accounts | 4,633 | (39) | 4,594 |
| Other liabilities | 17 | 32 | 49 |
| Accruals and deferred income | 12 | 0 | 12 |
| Current and deferred tax liabilities | 0 | 0 | 0 |
| Subordinated loan | 75 | (75) | 0 |
| Provision for liabilities and commitments | 0 | 0 | 0 |
| **Total liabilities** | **6,355** | **(75)** | **6,280** |
| **Shareholders' equity** | | | |
| Called up share capital | 520 | 0 | 520 |
| Reserves* | 25 | (8) | 17 |
| Deductions from capital | 0 | (125) | (125) |
| Tier 2 capital | 0 | 75 | 75 |
| **Capital and reserves** | **545** | **(58)** | **487** |
| **Total equity and liabilities** | **6,900** | **(133)** | **6,767** |

**Difference relates to restricted stock excluded from capital.*

## Table 3: Composition of regulatory capital

This table shows the composition of regulatory capital including all regulatory adjustments at 31 December 2016.

| Own Funds (£m) | (Consolidated) | | BNYMIL (Solo) | |
|---|---|---|---|---|
| | 31 December 16 | 31 December 15 | 31 December 16 | 31 December 15 |
| **Common Equity Tier 1 (CET1)** | | | | |
| Capital Instruments | 520 | 147 | 520 | 250 |
| Retained Earnings | 31 | 196 | 20 | 10 |
| Other comprehensive income | 0 | 0 | 0 | 0 |
| Reserves and others | 33 | 204 | (3) | (3) |
| CET1 Adjustments | (172) | (157) | (125) | (115) |
| **Total CET1** | **412** | **389** | **412** | **142** |
| **Additional Tier 1 Capital (AT1)** | | | | |
| Capital Instruments | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 |
| AT1 Adjustments | 0 | 0 | 0 | 0 |
| **Total AT1** | **0** | **0** | **0** | **0** |
| **Total Tier 1** | **412** | **389** | **412** | **142** |
| **Tier 2 Capital (T2)** | | | | |
| Capital Instruments and subordinated loans | 75 | 115 | 75 | 75 |
| Others | 0 | 0 | 0 | 0 |
| T2 Adjustments | 0 | 0 | 0 | 0 |
| **Total T2 Capital** | **75** | **115** | **75** | **75** |
| **Total Own Funds** | **487** | **504** | **487** | **217** |

## Table 4: Transitional own funds

The table below shows the transitional own funds disclosure at 31 December, 2016.

| BNYMIL (Consolidated) (£m)<br>Equity Instruments, Reserves and Regulatory Adjustments | Amount at disclosure date | Subject to pre-CRR treatment or prescribed residual amount of CRR |
|---|---|---|
| **CET1 capital: Instruments and Reserves** | | |
| Capital instruments and the related share premium accounts | 520 | |
| of which: ordinary shares | 520 | |
| Retained earnings | 31 | |
| Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 33 | |

| BNYMIL (Consolidated) (£m)<br>Equity Instruments, Reserves and Regulatory Adjustments (continued) | Amount at disclosure date | Subject to pre-CRR treatment or prescribed residual amount of CRR |
|---|---|---|
| **CET1 capital before regulatory adjustments** | **584** | |
| **CET1 capital: regulatory adjustments** | | |
| Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities | (172) | |
| **Total regulatory adjustments to CET1** | **(172)** | |
| | | |
| **CET1 capital** | **412** | |
| **AT1 capital** | **0** | |
| **Tier 1 capital** | **412** | |
| **Tier 2 (T2) capital: Instruments and provisions** | | |
| **Total regulatory adjustments to T2 capital** | **0** | |
| **T2 capital** | **75** | |
| **Total capital** | **487** | |
| **Total risk weighted assets** | **793** | |
| **Capital ratios and buffers** | | |
| CET1 (as a percentage of risk exposure amount) | 51.9% | |
| T1 (as a percentage of risk exposure amount) | 51.9% | |
| Total capital (as a percentage of risk exposure amount) | 61.4% | |
| of which: capital conservation buffer requirement | 0.625% | |
| CET1 available to meet buffers (as a percentage of risk exposure amount) | 51.9% | |
| **Amounts below the thresholds for deduction (before risk weighting)** | | |
| Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) | 22 | |

| BNYMIL (Solo) (£m)<br>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 | 520 | |
| of which: ordinary shares | 520 | |
| Retained earnings | 21 | |

| **BNYMIL (Solo) (£m)**<br>**Equity Instruments, Reserves and Regulatory Adjustments (continued)** | **Amount at disclosure date** | **Subject to pre-CRR treatment or prescribed residual amount of CRR** |
|---|---|---|
| Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | (3) | |
| **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **538** | |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | |
| Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities | (126) | |
| Losses for the current financial year | **0** | |
| Year-end non-eligible earning adjustments | 0 | |
| **Total regulatory adjustments to Common equity Tier 1 (CET1)** | **(126)** | |
| | | |
| **Common Equity Tier 1 (CET1) capital** | **412** | |
| **Additional Tier 1 (AT1) capital** | **0** | |
| **Tier 1 capital (T1 = CET1 + AT1)** | **412** | |
| **Tier 2 (T2) capital: Instruments and provisions** | | |
| **Total regulatory adjustments to Tier 2 (T2) capital** | **0** | |
| **Tier 2 (T2) capital** | **75** | |
| **Total capital (TC = T1 + T2)** | **487** | |
| **Total risk weighted assets** | **765** | |
| **Capital ratios and buffers** | | |
| Common Equity Tier 1(as a percentage of risk exposure amount) | 53.9% | |
| Tier 1 (as a percentage of risk exposure amount) | 53.9% | |
| Total capital (as a percentage of risk exposure amount) | 63.7% | |
| of which: capital conservation buffer requirement | N/A | |
| Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 53.9% | |
| **Amounts below the thresholds for deduction (before risk weighting)** | | |
| Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) | 22 | |



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## Table 5: Common tier 1 and additional tier 1 instruments and tier 2 instruments

This table provides a description of the main features of regulatory instruments issued and included as either tier 1 or tier 2 capital in Table 2 at 31 December, 2016.

| Capital instruments main features [1] | Ordinary Shares | Subordinated Debt |
|---|---|---|
| Issuer | The Bank of New York Mellon (International) Limited | The Bank of New York Mellon (International) Limited |
| Governing law(s) of the instrument | Law of England and Wales | Law of England and Wales |
| **Regulatory treatment** | | |
| Transitional CRR rules | Not applicable | Not applicable |
| Post-transitional CRR rules | Common Equity Tier 1 | Tier 2 |
| Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated | Solo | Solo |
| Instrument type | Ordinary Shares | Subordinated Debt |
| Amount recognised in regulatory capital | £519 million | £75 million |
| Nominal amount of instrument | £519 million | £75 million |
| Issue price | £1 | Not applicable |
| Redemption price | Not applicable | £75 million |
| Accounting classification | Shareholders' equity | Subordinated liabilities |
| Original date of issuance | 9-August-1996 | 30-November-2011 |
| Perpetual or dated | Perpetual | 29-November-2024 |
| Original maturity date | No maturity | 29-November-2018 |
| Issuer call subject to prior supervisory approval | No | No |
| Optional call date, contingent call dates and redemption amount | Not applicable | Not applicable |
| Subsequent call dates, if applicable | Not applicable | Not applicable |
| **Coupons / dividends** | | |
| Fixed or floating dividend/coupon | Not applicable | Floating coupon |
| Coupon rate and any related index | Not applicable | Sterling 3 month LIBOR plus 3% |
| Existence of a dividend stopper | No | Not applicable |
| Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | Mandatory |
| Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | Mandatory |
| Existence of step up or other incentive to redeem | No | No |
| Non-cumulative or cumulative | Not applicable | Not applicable |
| Convertible or non-convertible | Non-convertible | Non-convertible |
| Write-down features | No | No |
| Position in subordination hierarchy in liquidation (instrument type immediately senior to instrument) | Not applicable | Not applicable |
| Non-compliant transitioned features | Not applicable | No |

*Note [1]: this table is based on Annex II of ITS Regulation (EU) No. 1423/2013. Some 'not applicable' lines have been omitted.*

# 3 Capital Requirements

BNYMIL's capital plan aims to ensure that an appropriate amount of capital is held to support its business model, allowing for prudent management of the business, given a range of plausible but severe stress scenarios. Potential capital shortfalls are identified over a 5 year period and capital plans adjusted accordingly. The plan is reflective of BNYMIL'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, BNYMIL generates a 3 year forecast which forms the foundation for financial modelling and stress testing used as part of the ICAAP process.

The capital plan effectively incorporates a view of BNYMIL'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.

## 3.1 Calculating Capital Requirements

CRD IV allows for different approaches to the calculation of capital requirements. BNYMIL uses the standardised approach where risk weights are based on the exposure class to which the exposure is assigned and its credit quality. These risk weights used to assess requirements against credit exposures are consistent across the industry. The standardised approach is used for calculating the risk weights assigned to each risk component including credit risk, counterparty credit risk, market risk and operational risk.

**Table 6: Capital requirements**

This table shows the consolidated risk weighted assets using the standardised approach and their respective capital requirements.

| Type of Risk (£m) | Risk Exposure Amount | | Capital Requirements | |
|---|---|---|---|---|
| | 31-Dec-16 | 31-Dec-15 | 31-Dec-16 | 31-Dec-15 |
| Credit risk SA* | 383 | 340 | 31 | 27 |
| Counterparty Credit Risk SA* | 4 | 2 | 0 | 0 |
| Market risk SA* | 43 | 323 | 3 | 26 |
| of which: Foreign Exchange Position Risk | 43 | 323 | 3 | 26 |
| Operational risk | 359 | 623 | 29 | 50 |
| of which: Standardised Approach | 359 | 623 | 29 | 50 |
| Credit Valuation Adjustment - Standardised method | 4 | 2 | 0 | 0 |
| **Total** | **793** | **1,290** | **63** | **103** |
| **Total Capital** | | | **487** | **504** |
| Surplus Capital | | | 424 | 401 |

** SA: Standardised Approach.*

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

# 4 Risk Management Objectives and Policies

Given the critical role that BNY Mellon plays supporting clients and its status as a Global Systemically Important Financial Institution (G-SIFI), the financial stability of all of its constituent legal entities, throughout market cycles and especially during periods of market turbulence, is recognised at a Corporation level as an imperative. Clients and market participants need to have confidence that the Corporation's many legal entities will remain strong and continue to deliver operational excellence and maintain an uninterrupted service during periods of volatility. Therefore BNYMIL and BNY Mellon Corporation as a whole, is committed to maintaining a strong balance sheet and as a strategic position assumes less risk than many financial services companies.

Whilst BNY Mellon assumes less balance sheet risk than most financial services companies, it does assume a significant amount of operational risk as a result of its business model. As a consequence, BNY Mellon has developed an enterprise risk management program that is designed to ensure that:

Risk tolerances (limits) are in place to govern its risk-taking activities across all businesses and risk types

Risk appetite principles are incorporated into its strategic decision making processes

Monitoring and reporting of key risk metrics to senior management and the Board takes place

There is a capital planning process which incorporates both economic capital modelling and a stress testing programme

The BNYMIL Board of Directors has adopted a conservative risk appetite to maintain a strong capital position and balance sheet throughout all market cycles with strong liquidity, superior asset quality, ready access to external funding sources at competitive rates, and a robust capital structure whilst delivering operational excellence to meet stakeholders' expectations.

## 4.1 Risk Objectives

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

The Board recognises that defining a risk appetite must consider the views of a number of different stakeholders while accounting for business strategy and risk profile

The Board sees embedding the risk appetite into the business strategy as essential

The Board recognises that it cannot mitigate all risks. The risk framework includes standard risk management self-assessment tools that take into account loss history and stress testing to measure and monitor whether or not risk controls in place continue to remain effective

The Board will seek input from its own and group wide risk committees on a regular basis in its reassessment of appetite and sources of major risks

The Board adopts a prudent appetite to all elements of risk to which BNYMIL is exposed.

## 4.2 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.

The Executive Committee ("ExCo") of BNYMIL has been entrusted with the general management of Company. The ExCo normally meets monthly, and reports to the Board. The key responsibilities are: the day-to-day execution of the Company's strategy as approved by the Board and for ensuring that the culture across the Company facilitates the performance of business activities with integrity, efficiency and effectiveness; review of corporate initiatives including strategic, financial performance, new business, policy changes, controls and organisational development. The ExCo has responsibility across all LOBs conducted by or impacting the Company.

### 4.2.1 Board of Directors

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

Holding management accountable for the integrity of the risk appetite framework

Seeking independent assessment, if deemed necessary, of the integrity and robustness of the risk appetite framework by reference to stakeholder expectations

Understanding how strategic decisions alter the risk profile, and whether the strategic change would cause the risk appetite to be exceeded

The Board meets at least quarterly and the directors who served during the year were:

| Name | Position | Nationality | Number of directorships held | Position |
|---|---|---|---|---|
| M Cole-Fontayn | Director | British | 4 internal<br>4 external | Chairman, Chair Nomination Committee |
| E Shepperd | Director | British | 1 internal | Chief Operating Officer,<br>EMEA Investment Services |
| H Kablawi | Director | American | 2 internal<br>1 external | Chief Executive Officer |
| J Wheatley | Director | Irish | 7 internal | EMEA Head of Client Service Delivery |
| J Jack | Director | British | 8 internal<br>1 external | Chief Financial Officer, International |
| J M Johnston* | Director | British | 9 internal | Chief Risk Officer, EMEA |
| K J Gregory | Director | British | 1 internal<br>2 external | Independent Non-Executive Director,<br>Chair Risk Committee |
| S O'Connor** | Director | British | 4 internal<br>7 external | Independent Non-Executive Director,<br>Chair Audit Committee |

**JM Johnston resigned on 31 March 2017.*

***4 internal (constitutes 1 non-executive for the purposes of CRDIV), 7 external (constitutes 3 non-executive for the purposes of CRDIV).*

BNYMIL has established a Diversity Policy which sets out its approach to promoting diversity on the Board.

BNYMIL has a commitment to diversity and inclusion. This commitment is not only important to BNYMIL's culture and to each director as individuals, it is also critical to BNYMIL's ability to serve its clients and grow its business. BNYMIL recognises the benefits of having individuals with diverse backgrounds, experience and viewpoints on the Board for the different perspective and unique contributions they provide. Board appointments are based on an individual's skill, ability, experience, training, performance, and other valid role-related requirements.

The Nomination Committee (the "Committee") is responsible for reviewing the structure, size and composition of the Board (including its skills, knowledge, experience and diversity) and making recommendations to the Board with respect to any appointment. In identifying suitable candidates for a particular appointment, the Committee considers candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender.

BNYMIL recognises the importance of women having greater representation on the Board. As at the date of the Policy, the Committee has agreed that the Board should aspire to have a target of 30% female representation by the end of 2018. The Committee will keep this target under review in order to consider how to achieve it within the timeframe.

### 4.2.2 Regional Risk Governance

A regional level risk governance structure is in place to oversee all business and legal entity risk. Oversight and escalation is provided through the following key committee:

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

- EMEA Anti-Money Laundering Oversight Committee
- EMEA Asset and Liability Committee
- EMEA Controls Council

The ESRMC responsibilities include, but are not limited to, the following:

- Monitor and assess the impact of significant current & emerging risks including those associated with strategic initiatives at an EMEA level. Consider the impact on the risk profile of the region and provide further direction if appropriate
- Act as a point of convergence for regional risk reporting (providing a consolidated Legal Entity & Line of Business view) and sharing of risks and issues across Investment Management & Investment Services
- Escalate material issues and recommendations through common membership of the Chairman's Forum to the BNYM Senior Risk Management Committee (SRMC) and/or relevant Legal Entities

The ESRMC derives its authority from the BNYM Senior Risk Management Committee, but subject to constraints of corporate policy, legislation and regulation as appropriate.

### 4.2.3 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** - responsible for channeling new / renewal business into lines of business and subsequently legal entities, including BNYMIL, 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** - responsible for ensuring that the risk profile of EMEA Asset Servicing is well understood and effectively managed. This is achieved by carrying out the review of current and emerging key risk and control issues and related initiatives, escalation of material risks and issues to the Head of BNY Mellon Asset Servicing and other regional committees and boards as appropriate, approval of new or materially modified products, review of potential off-boarding of non-systemically significant products and review of significant regulatory requirements

### 4.2.4 Legal Entity Risk Management

The oversight of risk management within BNYMIL is governed via two risk management committees, namely:

**The Bank of New York Mellon (International) Ltd Risk Committee of the Board (RCoB)** - established by BNYMIL's Board to assist in fulfilling its oversight responsibilities with regards to risk appetite and risk management of the Company. The committee meets four times a year and is chaired by an independent non-executive director

**The Bank of New York Mellon (International) Ltd Risk Management Committee (RMC)** - which has delegated authority from the RCoB to oversee the management of risk on a daily basis. The RMC meets ten times per year and is chaired by the UK Legal Entity Risk Officer

### 4.2.5 Other Governance Bodies

The Board has delegated responsibility to the CASS (Client Asset Sourcebook) Governance Body and CASS Operational Oversight Committee to ensure that BNYMIL has appropriate arrangements in place to ensure compliance with its obligations under CASS requirements. A detailed CASS risk appetite statement has been defined, compliance with which is monitored by the CASS Governance Body. The CASS Governance Body, under its terms of reference is responsible for the escalation of CASS risk appetite breaches to the Board.

To the extent to which individual aspects of BNYMIL's risk profile can be influenced by governance bodies that are not directly accountable to the Board, the Board ensures that those governance bodies are clear on the specific requirements of BNYMIL and include specific representation from accountable officers of BNYMIL in their composition.

## 4.3 Risk Management Framework

BNYMIL's risk management framework provides integrated forward-looking risk assessment, management information reporting, risk appetite and capital adequacy process consistency. The framework helps ensure that all material risks in each business line are defined, understood, and effectively managed using well-designed policies and controls. Suitable policies and procedures have been adopted by BNYMIL in order to ensure an appropriate level of risk management is directed at the relevant element of the business.

Risk management complies with corporate policies on risk appetite and managing risk culture centered on a “Three Lines of Defence” model advocated by BNY Mellon. Within the EMEA region, the EMEA Chief Risk Officer oversees the management of risk and is supported in this role by Senior Risk Managers operating at business line and/or functional level.

BNYMIL’s risk management framework is designed to:

Ensure that risks are identified, managed, mitigated, monitored and reported

Define and communicate the types and amount of risks to take

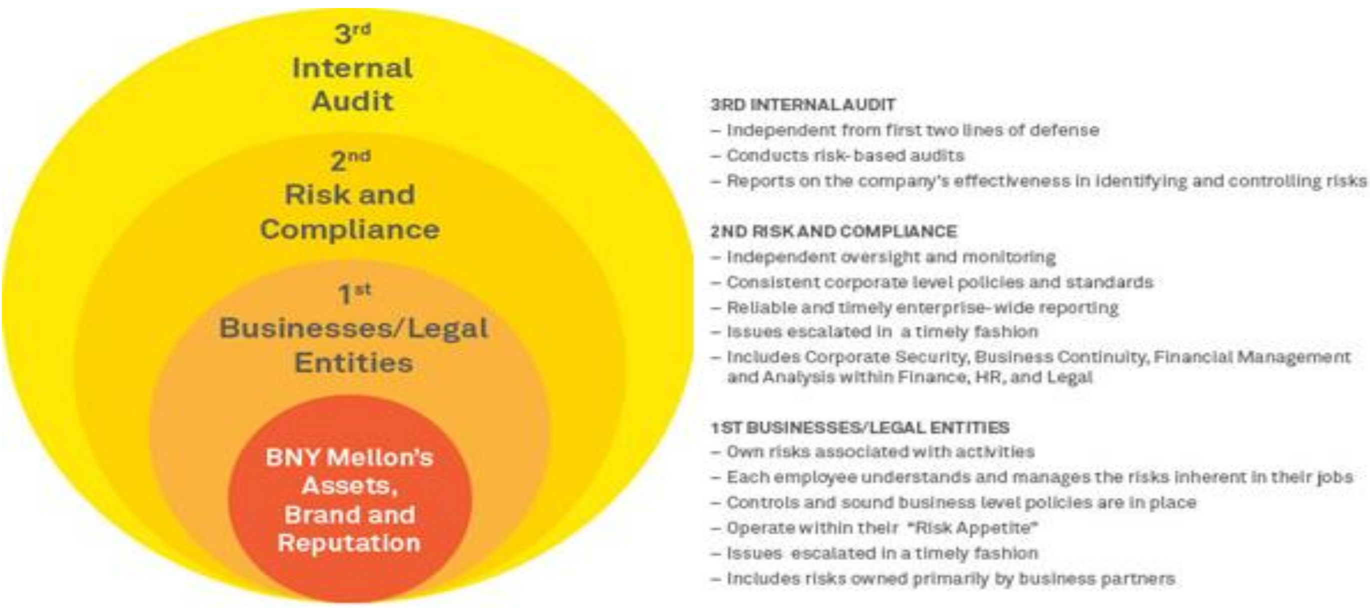
Ensure that risk-taking activities are consistent with the risk appetite

Monitor emerging risks and ensure they are weighed against the risk appetite

Promote a strong risk management culture that considers risk-adjusted performance

In line with global policy, BNYMIL has adopted the ‘Three Lines of Defence’ 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 BNYMIL 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**



BNY Mellon Risk and Compliance policies and guidelines provide the framework for BNYMIL's risk identification, internal controls, monitoring, reporting and escalation. Risks are managed within specialist risk teams (e.g. market, credit, operational) or via line of business risk teams.

The risk management function provides risk management information reporting to the BNYMIL 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 (1LOD) as 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. Emerging risks are identified in the region by a centralised emerging risk forum which convenes quarterly. Information from this forum is shared with regional management, including risk committees for interpretation and consideration within each line of business or legal entity.

BNYMIL's Board adopts a prudent appetite to all elements of risk to which it and its subsidiaries are 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 has sought to establish a clear set of tolerances for its business and has articulated its appetite through a series of statements and metrics.

Key risk management tools include risk and control self-assessment, key risk indicators, the reporting and monitoring of top risks, reporting of Operational Risk Events (ORE), credit risk exposure and limits, and market risk metrics. Stress testing is undertaken on a quarterly basis to analyse a range of scenarios of varying nature, severity and duration relevant to the BNYMIL risk profile. Details of risk management tools are further explained below.

## 4.4 Risk Register

The Risk Register is a risk management tool used for the assessment and documentation of risks associated with a legal entity. The risk register is created using risk data extrapolated from business risk and control self-assessments, audit reports, top risk reports, 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.

## 4.5 Risk Appetite

BNYMIL's Risk Appetite Statement is owned and approved by the Board. It describes the level of risk that the Board is willing to accept in its strategy and business activities, given its business objectives and obligations. The statement applies to all subsidiaries and is reviewed at least annually or when the Company's risk profile changes.

BNYMIL uses a variety of metrics to measure and monitor its risk taking activities relative to its risk appetite. Articulating risk appetite through its metrics aids important decision-making by determining actions such as pursuing new products and enterprises, exiting businesses, and aligning resources to maximise potential gains given acceptable levels of risk. The metrics are actively monitored, managed and mitigated through the monthly RMC. Where residual risks remain (which are within risk appetite), BNYMIL will allocate capital as a provision against any potential financial loss.

## 4.6 Risk and Control Self-Assessment

Risk and Control Self-Assessment (RCSA) 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. RCSA control gaps and action plans form part of the standard risk management report to the RMC which 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 risk to the business and of the key exception items relating to BNYMIL on an on-going basis.

## 4.7 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 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.

## 4.8 Operational Risk Events

All operational losses and fortuitous gains exceeding $10,000 are recorded in the risk management platform, completeness being verified by reconciliation to the general ledger. Risk events are categorised and reported to the RMC monthly.

## 4.9 Credit Risk

All counterparties (clients and banks) are assessed and allocated a borrower rating in accordance with BNY Mellon’s rating system. 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 a suitable credit officer in light of individual circumstances. Post-event monitoring is also conducted by both Client Services and the Credit function.

## 4.10 Market Risk

**Market Risk Management Objectives and Policies -** BNYMIL has adopted the BNY Mellon Enterprise-wide Market Risk Management framework. The framework consists of policies that establish standards and definitions for the effective management of market risk and present required practices specific to one or more business units, regions or support functions that facilitate the effective implementation of these standards and practices. The Enterprise-wide Market Risk Management framework provides that any business unit, legal entity or employee entering into business generating market risk must be appropriately mandated or otherwise authorised to do so.

**Market Risk Management Governance -** Market Risk Management is independent of the business units it supports and is responsible for establishing, implementing, monitoring and reporting exposures relative to limit measures and related remediation and escalation practices.

Market risk limits are established in agreement between the Market Risk Management function and the business unit in line with business activities, products and strategies, and include all risk limits required by applicable laws and regulations.

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

Monitoring of utilisation of market risk limits on a daily basis

Reporting of limit utilisation and limit breaches

Periodic limit reviews

A business unit or legal entity must report to its management and the Market Risk function when the entity's actual market risk exposures exceed currently approved limits. Market Risk also independently monitors limit breaches. Depending on the level and type of limit that is breached, escalation and notification is to the Executive Committee and Board Risk Committee, ALCO, or to Senior Risk Management and Business Management levels in the organizational hierarchy. In addition to timely notification of breaches to management (and where required by the escalation standard, the Board Risk Committee), breaches are reviewed periodically at respective Business Risk Committee meetings.

## 4.11 High Level Assessment

BNY Mellon's High Level Assessment (HLA) of the components of risk is performed quarterly and incorporates commentary on current risk and loss experience, emerging risks, business process changes, new product development, risk management initiatives and key risk indicators. HLA coverage includes operational, credit, market, strategic and reputation risk. The HLA incorporates ratings of inherent risk, quality of controls, residual risk and direction of risk.

## 4.12 Top Risks

Top risks are identified according to the assessment of the inherent risk, quality of controls in place to mitigate risk and ability to identify residual risk. Top risks are rated as 'High,' 'Moderate to High,' 'Moderate,' 'Moderate to Low' and 'Low' with direction anticipated. The top risks assessed form part of the RMC and Board meeting reporting. Top risks are also consolidated into the EMEA regional top risk reporting process for reporting to the EMEA level Risk Committees. BNYMIL's risk profile is recorded through a number of risk assessment tools and the risk management team prepares and updates the top risk assessment which is reviewed and approved by the RMC monthly and by the Board quarterly.

## 4.13 Stress Testing

Stress testing is undertaken at BNYMIL 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 BNYMIL's risk profile. The 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 BNYMIL's RMC and Board.

## 4.14 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 BNYMIL 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 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 BNYMIL is being compensated appropriately for the assumption of risk

Reviewing the impact of changes in business processes on inherent risks and controls such as reorganisations, new products or processes, system conversions and acquisitions, etc.

Ensuring that processes, risks and controls are continually reassessed for appropriateness and completeness

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

## 4.15 Internal Capital Adequacy Assessment Process (ICAAP)

An ICAAP document is produced annually for BNYMIL on a consolidated basis, including its subsidiaries. The process and document is owned by the BNYMIL Board and supported by the ICAAP and Stress Testing team. The purpose of the ICAAP is to:

Ensure the ongoing assessment and monitoring 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 of Directors of BNYMIL

Determine the capital requirement for the residual risk exposure 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 prudential supervisors

Provide the necessary information so that senior management, including the Board, can make decisions about the amount of capital that is required and what approach to risk management should be adopted

## 4.16 Recovery & Resolution Planning (RRP)

In 2014, recovery and resolution plans for BNYMIL were prepared for submission to the PRA in accordance with Supervisory Statement SS18/13. The RRP is designed to ensure that the BNYMIL group has credible and executable options to meet the challenges that may arise from potential future financial crises.

# 5 Credit Risk

## 5.1 Definition and Identification

Understanding, identifying and managing credit risk is a central element of BNYMIL's risk management. Credit risk is managed in line with BNYMIL's Risk Appetite to minimize losses whilst identifying future potential risks. In addition BNYMIL is also exposed to operational and intraday credit risk. This section describes the framework for the effective governance of all credit risk exposures, including intraday credit risk across BNYMIL. The principles, methodologies and processes relating to intraday credit risk are reviewed, and if appropriate modified at least annually.

Credit risk is defined as the risk that an obligor will fail to repay a loan or otherwise meet a contractual obligation as and when it falls due.

BNYMIL's credit risk arises from the following business operations:

**Client lending**:

- Credit facilities are provided on an advised but uncommitted basis to Investment Trusts
- Unadvised, uncommitted intraday and overnight credit facilities are provided in support of operational activity (trade settlement, cash wire activity, FX trades, etc.)

**Nostros**:

BNYMIL utilises a number of banks around the world to maintain cash and securities accounts to enable access to over a hundred worldwide markets to facilitate its Global Custody business. Nostro balances occur as a result of underlying client custody activity (trade settlements, securities maturing, etc.). This is known as 'as offered' exposure, since it is dependent largely upon the client activity rather than the activity of BNYMIL's own Treasury function. Nostro exposure forms the bulk of BNYMIL's credit risk to other banks

**Daylight / intraday overdrafts:**

Limits are set for each client as a percentage of a client's Assets Under Custody (AUC), as follows:

- Stock purchases under Custody Clearing Limit Regulations (CCLR – maximum 50% of AUC value, being capped at $800m)
- Daylight Overdraft Limit (DOL) for stock purchases with today's value and cash payments due out today (maximum 15% of AUC value, being capped at $800m)

**Cash Placements:**

BNYMIL deposits funds with or purchases certificates of deposits issued by other banks

## 5.2 Credit Risk Management Framework

At the outset of a new agent bank, trading counterparty or customer relationship, a review is undertaken by the business in partnership with Credit Risk to determine the client's suitability for the products offered and BNYMIL's risk appetite for the name. Once it is agreed that the relationship can be entered into and suitable limits made available to accommodate the activity, the client can be mandated and moved through the Business Acceptance Committee process for formal approval by all relevant parties. The business, as the first line of defence, has primary responsibility to identify the nature and quantum of Credit Risk that may be incurred as a result of any business relationship. Credit Risk assists in that assessment as the second line of defence.



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Credit Risk is an outsourced service provided under service level documents (SLDs) to the various global BNYM legal entities. Each legal entity Board of Directors will approve both an appropriate Risk Appetite Statement and a legal entity specific Credit Risk Policy which details the roles and responsibilities and levels of delegated authority for each type of activity.

## 5.3 Management of Credit Risk

Credit risk (including metrics, breaches, and output) is effectively managed in a number of ways:

Nostros are maintained at the minimum possible level and within the large exposure limits, ensuring smooth operations and adherence to own fund requirements. The banks used are all major highly rated banks in their respective countries

For custody clients, limits are calculated as a percentage of AUC. Most clients have, within their Global Custody Agreement (GCA), provided the bank with a contractual right of set-off across currency accounts, a custodial lien on the assets held and a right of retention and sale if debts are not repaid

Certain clients may not be able to provide liens on their assets due to sovereign immunity issues, or an inability to encumber the asset pool which may be held ultimately for the benefit of other parties (insurance companies, etc.). However, these clients are usually also highly rated financial institutions. Therefore, the risk is mitigated by their high credit rating rather than access to a collateralised securities portfolio

In some instances, the provision of an overdraft to a client could result in a large exposure breach. To mitigate this risk, a Risk Participation Agreement is in place with The Bank of New York Mellon, whereby excess exposures can be passed to the larger bank and thereby removed from the BNYMIL balance sheet. This arrangement is fully collateralised where necessary, to offset the intragroup large exposure risk

A Master Netting Agreement is in place to cover intragroup exposure to BNY Mellon SA/NV

Placement activity with third party banks is subject to credit approval and only occurs after careful consideration of the quality of the counterparty bank, large exposure issues and exposure elsewhere within the BNY Mellon enterprise. Relationships with, and limits for, all banks are managed globally by BNY Mellon. BNYMIL counterparty bank limits are managed as a subset within the overall limits approved by the parent

The metrics supporting the management of credit risk are monitored on a monthly basis and reported to senior management. Throughout 2016, no breaches were reported for BNYMIL.

## 5.4 Monitoring and Reporting

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

Post-event monitoring is conducted by both the Client Service area and the Credit Risk function.

## 5.5 Governance

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

Credit Risk Policy for each legal entity describes the outsourcing of credit risk tasks, defines roles and responsibilities and requires reporting to be carried out to each business line and entity that the policy applies to. Any deviation from approved policy requires either senior business or senior legal entity approval depending on the type of event

Approvals for excesses are controlled using a matrix of credit risk approval authorities held within the Credit Risk Policy – each Credit Risk Officer has their own individual approval authority granted by the Chief Credit Officer. He/she must act within those limits when making approvals. If an excess is beyond the Officer's approval limit, it is escalated to a more senior officer. The outsourcing of credit responsibility to Credit Risk Officers is through the Board approved Credit Risk Policy

Overdraft monitoring is a daily task and conducted within each legal entity – significant overdrafts are chased on a daily basis and according to BNYMIL's risk appetite. All significant overdrafts and exposures are recorded and form part of the credit risk management information produced on a monthly basis for various management committees

## 5.6 Analysis of Credit Risk

Credit risk exposure is computed under the standardised approach, as defined in BIPRU 3.1.6 R, which uses external credit assessment institution ratings and supervisory risk weights supplied by external credit assessment agencies. The following credit risk exposure tables summarise the credit exposure for BNYMIL in accordance with the CRD IV requirements.

The definitions below are used in the following tables:

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

**Credit Conversion Factor (CCF)** converts the amount of a free credit line and other off-balance-sheet transactions (with the exception of derivatives) to an EAD amount. This function is used to calculate the exposure at default

**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 7: Standardised credit exposure by exposure class

The following tables show the credit risk for BNYMIL (Consolidated) post CRM techniques using the standardised approach by exposure class at 31 December 2016.

| Exposure Class (£m) | Net value at the end of the period | Average net value over the period |
|---|---|---|
| Central governments or central banks | 4,875 | 3,334 |
| Corporates | 114 | 197 |
| Covered Bonds | 0 | 0 |
| Institutions | 598 | 1,083 |
| Multilateral Development Banks | 0 | 0 |
| Other items | 109 | 101 |
| Public sector entities | 0 | 0 |
| International Organisations | 0 | 0 |
| **Total** | **5,696** | **4,715** |

## Table 8: Standardised credit exposure by country

This table shows the BNYMIL (Consolidated) post CRM exposure by class and by geographic area of the counterparty.

| At 31 December 2016 (£m) | UK | Luxembourg | Canada | Belgium | US | Other | Total |
|---|---|---|---|---|---|---|---|
| Central governments or central banks | 3,890 | 965 | 0 | 0 | 20 | 0 | 4,875 |
| Corporates | 91 | 4 | 0 | 0 | 19 | 0 | 114 |
| Covered Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 79 | 1 | 186 | 122 | 19 | 191 | 598 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 98 | 3 | 0 | 3 | 5 | 0 | 109 |
| Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| International Organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **4,158** | **973** | **186** | **125** | **63** | **191** | **5,696** |
| **At 31 December 2015 (£m)** | **UK** | **Luxembourg** | **US** | **Ireland** | **Japan** | **Other** | **Total** |
| Central governments or central banks | 2,519 | 135 | 40 | 0 | 0 | 0 | 2,694 |
| Corporates | 104 | 0 | 37 | 0 | 0 | 3 | 144 |
| Covered Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 32 | 1 | 0 | 0 | 39 | 2 | 74 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 70 | 5 | 0 | 40 | 0 | 3 | 118 |
| Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| International Organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **2,725** | **141** | **77** | **40** | **39** | **8** | **3,030** |

### Table 9: Standardised post mitigated credit exposures by counterparty type

This table shows the BNYMIL (Consolidated) credit exposure post CRM classified by class and by counterparty type.

| At 31 December 2016 (£m) | General governments | Credit institutions | Other financial corporations | Various balance sheet Items | Total |
|---|---|---|---|---|---|
| Central governments or central banks | 4,875 | 0 | 0 | 0 | 4,875 |
| Corporates | 0 | 0 | 114 | 0 | 114 |
| Covered Bonds | 0 | 0 | 0 | 0 | 0 |
| Institutions | 0 | 598 | 0 | 0 | 598 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 0 | 0 | 109 | 109 |
| Public sector entities | 0 | 0 | 0 | 0 | 0 |
| International Organisations | 0 | 0 | 0 | 0 | 0 |
| **Total** | **4,875** | **598** | **114** | **109** | **5,696** |

### Table 10: Standardised credit exposure by residual maturity

This table shows the BNYMIL (Consolidated) exposure post credit risk mitigation, classified by credit exposure class and residual maturity.

| At 31 December 2016 (£m) | On demand | Less than 1 year | Less then 5 years | No stated maturity | Total |
|---|---|---|---|---|---|
| Central governments or central banks | 4,875 | 0 | 0 | 0 | 4,875 |
| Institutions | 598 | 0 | 0 | 0 | 598 |
| Corporates | 114 | 0 | 0 | 0 | 114 |
| Retail | 0 | 0 | 0 | 0 | 0 |
| Collective investment undertakings | 0 | 0 | 0 | 0 | 0 |
| Other | 109 | 0 | 0 | 0 | 109 |
| **Total** | **5,696** | 0 | 0 | 0 | **5,696** |

## 5.7 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 using the following definitions:

**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

As at 31 December 2016, BNYMIL had no material impaired assets for which a specific or general provision was required. There were no material assets past due greater than 90 days. BNYMIL did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year.

### Table 11: Credit quality of exposures by counterparty type

This table provides a comprehensive picture of the BNYMIL (Consolidated) credit quality of on- and off-balance sheet exposures.

| Counterparty type at 31 December 2016 (£m) | Exposures | | Credit Risk Adjustments | | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|
| | Defaulted | Non-defaulted | Specific | General | | | |
| General governments | 0 | 4,875 | 0 | 0 | 0 | 0 | 4,875 |
| Credit institutions | 0 | 1,673 | 0 | 0 | 0 | 0 | 1,673 |
| Other financial corporations | 0 | 115 | 0 | 0 | 0 | 0 | 115 |
| Various Balance Sheet Items | 0 | 109 | 0 | 0 | 0 | 0 | 109 |
| **Total** | **0** | **6,772** | **0** | **0** | **0** | **0** | **6,772** |

| Counterparty type at 31 December 2015 (£m) | Exposures | | Credit Risk Adjustments | | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|
| | Defaulted | Non-defaulted | Specific | General | | | |
| General governments | 0 | 2,694 | 0 | 0 | 0 | 0 | 2,694 |
| Credit institutions | 0 | 259 | 0 | 0 | 0 | 0 | 259 |
| Other financial corporations | 0 | 145 | 0 | 0 | 0 | 0 | 145 |
| Various Balance Sheet Items | 0 | 118 | 0 | 0 | 0 | 0 | 118 |
| **Total** | **0** | **3,216** | **0** | **0** | **0** | **0** | **3,216** |

## Table 12: Impaired, past due exposures by industry

This table shows an analysis of BNYMIL (Consolidated) impairments and allowances by industry using the IFRS methodology.

| Industry type at 31 December 2016 (£m) | Exposures | | Credit Risk Adjustments | | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|
| | Defaulted | Non-defaulted | Specific | General | | | |
| Public administration and defence, compulsory social security | 0 | 20 | 0 | 0 | 0 | 0 | 20 |
| Financial and insurance activities | 0 | 5,437 | 0 | 0 | 0 | 0 | 5,437 |
| Other services | 0 | 1,315 | 0 | 0 | 0 | 0 | 1,315 |
| **Total** | **0** | **6,772** | **0** | **0** | **0** | **0** | **6,772** |
| Of which: Loans | 0 | 6,772 | 0 | 0 | 0 | 0 | 6,772 |
| **Total** | **0** | **6,772** | **0** | **0** | **0** | **0** | **6,772** |

| Industry type at 31 December 2015 (£m) | Exposures | | Credit Risk Adjustments | | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|
| | Defaulted | Non-defaulted | Specific | General | | | |
| Public administration and defence, compulsory social security | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial and insurance activities | 0 | 3,071 | 0 | 0 | 0 | 0 | 3,071 |
| Other services | 0 | 145 | 0 | 0 | 0 | 0 | 145 |
| **Total** | **0** | **3,216** | **0** | **0** | **0** | **0** | **3,216** |
| Of which: Loans | 0 | 3,216 | 0 | 0 | 0 | 0 | 3,216 |
| **Total** | **0** | **3,216** | **0** | **0** | **0** | **0** | **3,216** |



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### Table 13: Credit quality of exposures by geographical breakdown

This table shows an analysis of BNYMIL (Consolidated) past due, impaired exposures and allowances by country using the IFRS methodology.

| Counterparty type at 31 December 2016 (£m) | Exposures | | Credit Risk Adjustments | | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|
| | Defaulted | Non-defaulted | Specific | General | | | |
| UK | 0 | 4,149 | 0 | 0 | 0 | 0 | 4,149 |
| Luxembourg | 0 | 970 | 0 | 0 | 0 | 0 | 970 |
| Belgium | 0 | 634 | 0 | 0 | 0 | 0 | 634 |
| US | 0 | 630 | 0 | 0 | 0 | 0 | 630 |
| Canada | 0 | 192 | 0 | 0 | 0 | 0 | 192 |
| Other | 0 | 197 | 0 | 0 | 0 | 0 | 197 |
| **Total** | **0** | **6,772** | **0** | **0** | **0** | **0** | **6,772** |

| Counterparty type at 31 December 2015 (£m) | Exposures | | Credit Risk Adjustments | | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
|---|---|---|---|---|---|---|---|
| | Defaulted | Non-defaulted | Specific | General | | | |
| UK | 0 | 2,709 | 0 | 0 | 0 | 0 | 2,709 |
| Luxembourg | 0 | 142 | 0 | 0 | 0 | 0 | 142 |
| Belgium | 0 | 131 | 0 | 0 | 0 | 0 | 131 |
| US | 0 | 107 | 0 | 0 | 0 | 0 | 107 |
| Canada | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| Other | 0 | 126 | 0 | 0 | 0 | 0 | 126 |
| **Total** | **0** | **3,216** | **0** | **0** | **0** | **0** | **3,216** |

# 6 Credit Risk Mitigation

BNYMIL manages credit risk through a variety of credit risk mitigation strategies including collateral and master agreements and netting arrangements.

## 6.1 Netting

International Swaps and Derivatives Association (ISDA) Master Agreements and netting are used to mitigate counterparty credit risk. The ISDA Agreement incorporates schedules that allow the contracting parties to customise the terms and conditions to their mutual satisfaction to cover termination events, netting arrangements, security and other matters.

Netting may take two different forms, close-out netting and settlement netting. Close-out netting refers to an agreement between BNYMIL and a counterparty that, in the event of a default, the non-defaulting party can require that:

All open derivative contracts be marked-to-market and summed

A single net payment will be made as final settlement to whichever party holds the overall profit from the contracts

Collateral be liquidated (if held)

Settlement netting requires that all foreign exchange obligations payable on the same settlement date, be netted to produce a single payment obligation for each currency traded.

## 6.2 Collateral Valuation and Management

BNYMIL can receive collateral from a counterparty which can include guarantees, cash and both equity and debt securities, and has the ability to call on this collateral in the event of a default by the counterparty.

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

## 6.3 Wrong-way Risk

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

## 6.4 Credit Risk Concentration

Credit risk concentration results from exposures to a single counterparty, borrower or group of connected counterparties or borrowers. Credit risk mitigation taken by BNYMIL may result in increased exposure to this type of risk which includes on and off-balance sheet (i.e. guarantees) concentration risk.

Credit risk concentration originates mostly through BNYMIL's banking activities. BNYMIL has an appetite to place only with institutions having an internal rating of 7 or above (equivalent to Moody's/S&P/Fitch external rating of A3/A-/A- respectively). This limits the spread but also ensures that exposures are well-controlled, managed and less likely to default. Guarantees are treated as an exposure against the guarantor institution and managed within this controlled environment.

The number of counterparties BNYMIL is willing to place funds with is limited and hence, concentration risk can arise from cash balances placed with a relatively small number of counterparties. To mitigate this, exposures are only placed on a very short-term basis, generally overnight (maximum of 180 days), ensuring ability to withdraw funds in a timely manner. In addition, to comply with the Large Exposures Regime, Treasury Services limit placements to a maximum of €150m (equivalent to £128m).

### Table 14: Credit risk mitigation techniques – overview

This table shows the extent of credit risk mitigation techniques utilized by BNYMIL (Consolidated).

| 31 December 2016 (£m) | Exposures unsecured: carrying amount | Total Exposures secured | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| Total loans | 5,696 | 1,076 | 1,076 | 0 | 0 |
| Total debt securities | 20 | 0 | 0 | 0 | 0 |
| **Total exposures** | **5,716** | **1,076** | **1,076** | **0** | **0** |
| Of which defaulted | 0 | 0 | 0 | 0 | 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.

There are no exposures covered by guarantees or credit derivatives at 31 December 2016. 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.

# 7 External Credit Assessment Institutions (ECAIs)

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

### Table 15: Mapping of ECAIs credit assessments to credit quality steps

BNYMIL 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 BNYMIL's nominated ECAIs' credit assessments to the credit quality steps.

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

### Table 16: Credit quality steps and risk weights

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

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

| Credit quality steps and risk weights | CQS | CQS | CQS | CQS | CQS | CQS |
|---|---|---|---|---|---|---|
| Exposure class | 1 | 2 | 3 | 4 | 5 | 6 |
| Central governments and central banks | 0% | 20% | 50% | 100% | 100% | 150% |
| Institutions maturity <= 3 months | 20% | 20% | 20% | 50% | 50% | 150% |
| Institutions maturity > 3 months | 20% | 50% | 50% | 100% | 100% | 150% |
| Corporates | 20% | 50% | 100% | 100% | 150% | 150% |
| Collective investment undertakings | 20% | 50% | 100% | 100% | 150% | 150% |
| Unrated institutions | 20% | 50% | 100% | 100% | 100% | 150% |

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

### Table 17: Credit risk exposure and Credit Risk Mitigation (CRM) effects

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

| Exposure classes (£m) | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWA | RWA density |
|---|---|---|---|---|---|---|
| | balance sheet amount | | balance sheet amount | | | |
| | On- | Off- | On- | Off- | | |
| Central governments and central banks | 4,875 | 0 | 4,875 | 0 | 0 | 0% |
| Institutions | 1,673 | 0 | 598 | 0 | 120 | 20% |
| Corporates | 115 | 0 | 114 | 0 | 114 | 100% |
| Retail | 0 | 0 | 0 | 0 | 0 | 0% |
| Collective investment undertakings | 0 | 0 | 0 | 0 | 0 | 0% |
| Other | 109 | 0 | 109 | 0 | 149 | 137% |
| | | | | | | |
| **Total** | **6,772** | **0** | **5,696** | **0** | **383** | **7%** |

### Table 18: Credit risk exposure by asset class and risk weight post CCF and CRM

This table shows the breakdown of exposures for BNYMIL (Consolidated) after the application of both conversion factors and risk mitigation techniques.

| Exposure Class at At 31 December 2016 (£m) | 0% | 20% | 100% | 150% | 250% | Other | Total |
|---|---|---|---|---|---|---|---|
| Central governments or central banks | 4,875 | 0 | 0 | 0 | 0 | 0 | 4,875 |
| Corporates | 0 | 0 | 114 | 0 | 0 | 0 | 114 |
| Covered Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 0 | 598 | 0 | 0 | 0 | 0 | 598 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 0 | 72 | 15 | 22 | 0 | 109 |
| Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| International Organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **4,875** | **598** | **186** | **15** | **22** | **0** | **5,696** |

| Exposure Class at At 31 December 2015 (£m) | 0% | 20% | 100% | 150% | 250% | Other | Total |
|---|---|---|---|---|---|---|---|
| Central governments or central banks | 2,670 | 0 | 0 | 0 | 24 | 0 | 2,694 |
| Corporates | 0 | 0 | 145 | 0 | 0 | 0 | 145 |
| Covered Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 0 | 75 | 0 | 0 | 0 | 0 | 75 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 0 | 114 | 0 | 4 | 0 | 118 |
| Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| International Organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **2,670** | **75** | **259** | **0** | **28** | **0** | **3,032** |

The deposit base of the firm increased significantly during 2016 following a transfer of business from BNYM Luxembourg SA to BNYMIL's Luxembourg branch. Most of the additional funds were placed either with the Bank of England or the Central Bank of Luxembourg. Hence the large increase in government exposures.

# 8 Counterparty Credit Risk

Counterparty credit risk is the risk of a counterparty to a contract (recorded in either the trading book or non-trading book) defaulting 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 2016 BNYMIL did not have any trading book positions, with counterparty credit risk originating from banking book derivative positions.

### Table 19: Analysis of the counterparty credit risk (CCR) exposure by approach

This table shows a comprehensive view of the methods used to calculate counterparty credit risk regulatory requirements and the main parameters used within each method for BNYMIL (Consolidated).

| Counterparty Credit Risk (£m) | | |
|---|---|---|
| **Derivatives - Mark to Market method** | **31 December 2016** | **31 December 2015** |
| Gross positive fair value of contracts | 5 | 1 |
| Potential future credit exposure | 15 | 7 |
| Netting benefits | 0 | 0 |
| Net current credit exposure | 20 | 8 |
| Net derivatives credit exposure | 20 | 8 |
| Risk Weighted Assets | 4 | 2 |
| **SFT - under financial collateral comprehensive method** | **31 December 2016** | **31 December 2015** |
| Net current credit exposure | 0 | 0 |
| Net SFT credit exposure | 0 | 0 |
| Risk Weighted Assets | 0 | 0 |
| | | |
| **Counterparty Credit Risk exposure** | **20** | **8** |

*Note: SFT (Securities Financing Transactions).*

## 8.1 Credit Valuation Adjustment

The credit valuation adjustment is the capital charge for potential mark-to-market losses due to the credit quality deterioration of a counterparty. The standardised approach uses the external credit rating of each counterparty and includes the effective maturity and exposure at default.

### Table 20: Credit valuation adjustment capital charge

This table shows BNYMIL (Consolidated) credit valuation adjustment using the Standardised Approach.

| 31 December 2016 (£m) | Exposure value | RWA |
|---|---|---|
| All portfolios subject to the Standardised Method | 20 | 4 |
| | | |
| **Total subject to the CVA capital charge** | **20** | **4** |

### Table 21: CCR exposures by exposure class and risk weight

This table shows the breakdown of BNYMIL (Consolidated) counterparty credit risk exposures by exposure class and risk weight attributed according to the Standardised Approach.

| 31 December 2016 (£m) | 0% | 20% | 50% | 100% | 150% | 250% | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Covered Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 0 | 20 | 0 | 0 | 0 | 0 | 0 | 20 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **0** | **20** | **0** | **0** | **0** | **0** | **0** | **20** |

| 31 December 2015 (£m) | 0% | 20% | 50% | 100% | 150% | 250% | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Covered Bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 0 | 8 | 0 | 0 | 0 | 0 | 0 | 8 |
| Multilateral Development Banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **0** | **8** | **0** | **0** | **0** | **0** | **0** | **8** |

### Table 22: Impact of netting and collateral held on exposure values

This table provides an overview of the collateral held on exposures for BNYMIL (Consolidated).

| 31 December 2016 (£m) | Gross positive fair value or net carrying amount | Netting benefits | Netted current credit exposure | Collateral held | Net credit exposure |
|---|---|---|---|---|---|
| Derivatives by underlying | 20 | 0 | 20 | 0 | 20 |
| Securities Financing Transactions | 0 | 0 | 0 | 0 | 0 |
| Cross-product netting | 0 | 0 | 0 | 0 | 0 |
| **Total** | **20** | **0** | **20** | **0** | **20** |



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# 9 Asset Encumbrance

## Table 23: Encumbered assets

| BNYMIL (Consolidated) at 31 December 2016 (£m) | Encumbered assets | | | | Unencumbered assets | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | of which notionally eligible EHQLA and HQLA | Fair value | of which notionally eligible EHQLA and HQLA | Carrying amount | of which EHQLA and HQLA | Fair value | of which EHQLA and HQLA |
| Assets of the reporting institution | 14 | 0 | | | 6,934 | 0 | | |
| Loans on demand | 14 | 0 | | | 6,800 | 0 | | |
| Debt securities | 0 | 0 | 0 | 0 | 20 | 0 | 0 | 0 |
| of which: issued by general governments | 0 | 0 | 0 | 0 | 20 | 0 | 0 | 0 |
| Other assets | 0 | 0 | | | 113 | 0 | | |

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

## Table 24: Sources of encumbrance

| BNYMIL (Consolidated) at 31 December 2016 (£m) | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|
| **Carrying amount of selected financial liabilities** | **0** | **0** |
| Derivatives | 0 | 0 |
| Deposits | 0 | 0 |
| Repurchase agreements | 0 | 0 |
| Collateralised deposits other than repurchase agreements | 0 | 0 |
| Debt securities issued | 0 | 0 |
| **Other sources of encumbrance** | **0** | **14** |
| Nominal of loan commitments received | 0 | 0 |
| Nominal of financial guarantees received | 0 | 0 |
| Fair value of securities borrowed with non- cash collateral | 0 | 0 |
| Other | 0 | 14 |
| **Total sources of encumbrance** | **0** | **14** |

*Note: ABS (Asset-Backed Securities).*

Encumbered assets for BNYMIL relate solely to its ‘cash ratio deposit’ requirement to hold a minimum level of reserves at the Bank of England. This represents a relatively small proportion of the firm’s total reserves held at the Bank of England.

# 10 Market Risk

Market risk is the risk of adverse change to the economic condition of BNYMIL resulting from 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, equity prices, credit spreads, prepayment rates, and commodity prices. BNYMIL's exposure to market risk arises from foreign exchange (FX) risk and non-traded interest rate risk or interest rate risk in the banking book (IRRBB). There is no trading book activity undertaken in BNYMIL and therefore no traded market risk.

FX translation risk is the risk that a change in foreign exchange rates will create adverse impacts to the financial performance of the firm. BNYMIL is naturally exposed to this type of risk where there is a currency mismatch between income and costs. In order to mitigate this, open foreign exchange positions on the balance sheet are closed out on a regular basis as they arise and, as a minimum, at monthly intervals.

BNYMIL's exposure to market risk arises mainly from foreign exchange risk from operational flows in foreign currencies as non-UK clients are billed in US dollars. Market risk can also arise as a result of interbank and central bank placements or other collective investment undertakings.

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

### Table 25: Market risk – risk weighted assets and capital required

This table shows BNYMIL (Consolidated) components of the capital requirements and risk weighted assets for market risk using the standardised approach.

| Position risk components at 31 December 2016 (£m) | Risk Weighted Assets | Capital requirements |
|---|---|---|
| Foreign exchange risk | 43 | 3 |
| **Total** | **43** | **3** |

# 11 Interest Rate Risk – Non-Trade Book

BNYMIL has no material assets and liabilities subject to Interest Rate Risk (IRR), does not run a trading book and seeks to match its interest rate risk on its non-trading book. Its IRR exposure for both on-balance sheet and off-balance sheet assets and liabilities mainly arises from movements in domestic and foreign interest rates.

The Board sets the overall tolerance for IRR and delegates to the Asset and Liability Committee (ALCO) a mandate to oversee the management of these risks and the responsibility for devising and executing IRR strategies and policies consistent with the risk appetite.

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 BNYMIL operates within its risk appetite. Any breaches are reported to the RMC and the Board.

### Table 26: Net interest income sensitivity by currency

This table shows the net interest income sensitivity by BNYMIL's major transactional currencies.

| Currency | + 100 basis points | - 100 basis points | + 100 basis points | - 100 basis points |
|---|---|---|---|---|
| **(000s)** | **2016** | **2016** | **2015** | **2015** |
| GBP | 19,938 | (19,938) | 9,207 | (9,207) |
| USD | (17,106) | 17,106 | (8,804) | 8,804 |
| EUR | (58) | 58 | (6) | 6 |
| Other currencies | (5) | 5 | (3) | 3 |
| **Total** | **2,769** | **(2,769)** | **394** | **(394)** |
| As percentage of net interest income | 50% | 50% | 5% | 5% |

# 12 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events (including legal risk but excluding strategic and 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.

## 12.1 Operational Risk Management Framework

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

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

The first line is principally the businesses and business process owners, who are responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which they are accountable throughout the course of their business activities.

The second line of defence, the independent Risk Management function, is responsible for reviewing and challenging the risks identified, assessed and managed by the first line of defence. The Operational Risk Management Framework team, including the LERO, is also responsible for building and maintaining the ORMF framework and partnering the first line of defence to enable them to embed it.

The third line of defence is Internal Audit (organisationally independent from both the first and second line of defence). A key responsibility of the third line as it pertains to the Operational Risk Management Framework is to opine on the adequacy of the framework and governance process.

Therefore, the monitoring and reporting of operational risks occurs within the business, entity and EMEA-region risk oversight functions as well as decision-making forums, such as business risk committees and BNYMIL's Risk Management Committee.

In order to continually reduce the likelihood of adverse impacts from operational failures and to aid the continued identification, evaluation, mitigation, and re-assessment of risks and controls, the activities defined in the ORMF policy are:

Identify and understand key business processes and risks

Design and document controls

Execute the controls

Monitor key risk indicators

Report key risk indicator performance, issues and actions to resolve

Elevate concerns

Strengthen controls

Re-assess and update when necessary

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

BNYMIL uses the ORMF to capture, analyse and monitor its operational risks, including Operational Risk Events, Risk Control Self-Assessments, Key Risk Indicators and Operational Risk Scenarios. Below is an explanation of how these tools are used to manage the operational risks of the business.

**Operational Risk Events** (OREs) are mapped to Basel II operational risk event categories. Information on operational risk event losses or gains exceeding $10,000 is entered into a central Risk Management Platform (RMP) database. Loss events are analysed to understand root cause and to identify improvements needed in order to reduce the recurrence and/or magnitude of future events and potential mitigating actions are reported to the RMC monthly. BNYMIL adheres to the corporate procedures on loss event analysis and reporting, that document clearly the risk event workflow process for analysing OREs, the approval process and the required escalation process, to senior management and its governance committees.

**Risk and Control Self-Assessments** (RCSAs) are used to identify and document inherent risks associated with business processes and perform an assessment of the current risk and control environment. Gaps and action plans are tracked to completion for all controls that are assessed as “Less than Satisfactory” or “Needs Improvement”. The progress of open action plans is monitored and reported at the monthly RMC.

**Key Risk Indicators** (KRIs) are defined at the Line of Business level and they allow management to monitor essential/critical aspects of the business processes against their measurable thresholds. BNYMIL’s management is alerted when these risk levels exceed the risk agreed range. These excesses are escalated to the appropriate BNYMIL governance committees.

**Operational Risk Scenario Analysis (ORSA)** is used by BNYMIL to:

- Identify and assess plausible, high impact, low probability Operational Risk loss events
- Provide a broad perspective of risks faced globally based on the expertise of senior business and risk managers
- Support an understanding of how significant operational losses could occur
- Support, directly or indirectly, the calculation of Operational Risk capital by using the output of the scenario analysis (frequencies and severities) as the input for Pillar II operational risk capital modelling

Scenario Analysis is reviewed on an annual basis and in response to significant business change. During the 2016 review of the Operational Risk scenarios, a number of enhancements were made to the process including:

- Improved representation at scenario workshops and better clarity around roles and responsibilities
- Improved linking of scenarios to the legal entity risk profile with increased coverage
- Enhanced documentation of the process

BNYMIL utilises the Risk Management Platform (RMP), a global platform for monitoring and reporting of operational risks within the business, entity and EMEA-region risk oversight functions, as well as decision-making forums such as business risk committees and the RMC. Regional committees such as the EMEA Senior Risk Management Committee also monitor and incorporate the material risks of BNYMIL in forming its regional risk assessment.

Additionally, BNYMIL has, in line with the enterprise risk policy for risk appetite, set a risk appetite statement which recognises the inherent nature of operational risk and the reliance on the ORMF to mitigate it.

BNYMIL also maintains a risk register which captures the most material risks associated with the business and the risk mitigations currently in place. Operational risk is one of BNYMIL's material risks. The risk register is updated at least annually. Current issues, emerging and top risks, adverse KRIs and OREs (>$10,000) are reported to the BNYMIL Risk Management Committee.

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

## 12.2 Capital Resource Requirement

BNYMIL calculates the Pillar 1 operational risk capital resource requirement under the Standardised Approach. BNYMIL falls under the Agency Services Basel business line which mandates a 15% beta factor to determine capital from gross income.

# 13 Leverage

Although the BNY Mellon Corporation manages its leverage ratio in line with US regulatory limits, BNYMIL itself is not subject to a leverage ratio requirement in the UK.

Nevertheless BNYMIL monitors its leverage position and reports accordingly. The table below is reflective of the standard EBA reporting format, but BNYMIL is mindful of the exclusion for Bank of England reserves from the leverage exposure value that has been prescribed by the PRA, which would dramatically reduce this value and hence increase the leverage ratio itself.

The leverage ratio is calculated by dividing tier 1 capital by a total exposure measure which is comprised of a defined sum of asset exposure values and off-balance sheet items.

### Table 27: Leverage ratio summary

This table shows BNYMIL (Consolidated) summary reconciliation of accounting assets and leverage ratio exposures.

| at 31 December 16 (£m) | |
|---|---|
| **Total assets as per published financial statements** | **6,948** |
| Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | (143) |
| Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013 "CRR" | 0 |
| Adjustments for derivative financial instruments | 15 |
| Adjustments for securities financing transactions (SFTs) | 0 |
| Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 14 |
| Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013 | 0 |
| Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013 | 0 |
| Other adjustments | (29) |
| **Total leverage ratio exposure** | **6,805** |

### Table 28: Leverage ratio common disclosure

| Regulatory leverage ratio exposures at 31 December 16 (£m) | |
|---|---|
| | |
| **On-balance sheet exposures (excluding derivatives and SFTs)** | |
| On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 6,944 |
| Asset amounts deducted in determining Tier 1 capital | (172) |
| **Total on-balance sheet exposures (excluding derivatives and SFTs)** | **6,772** |
| | |
| **Derivative exposures** | |
| Replacement cost associated with derivatives transactions | 5 |
| Add-on amounts for PFE associated with derivatives transactions | 15 |
| Exposure determined under Original Exposure Method | 0 |

| Regulatory leverage ratio exposures at 31 December 16 (£m) (continued) | |
|---|---|
| **Total derivative exposures** | **20** |
| | |
| **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 | 136 |
| Adjustments for conversion to credit equivalent amounts | (122) |
| **Total off-balance sheet exposures** | **14** |
| | |
| **Capital and Total Exposures** | |
| Tier 1 capital | 412 |
| Exposures of financial sector entities according to Article 429(4) 2nd of CRR | 0 |
| | |
| **Leverage Ratios** | |
| **Total Exposures** | **6,805** |
| End of quarter leverage ratio | 6.06% |
| Leverage ratio (avg. of the monthly leverage ratios over the quarter) | 6.06% |
| | |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | |
| Choice on transitional arrangements for the definition of the capital measure | Fully phased-in |
| Amount of derecognised fiduciary items in accordance with Article 429(11) of CRR | 0 |

### Table 29: Composition of on-balance sheet exposures

This table shows the composition of on-balance sheet exposures excluding derivatives, SFTs and exempted exposures at 31 December 2016.

| CRR leverage ratio exposures (£m) | |
|---|---|
| **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | **6,772** |
| Trading book exposures | 0 |
| Banking book exposures, of which: | 6,772 |
| Covered bonds | 0 |
| Exposures treated as sovereigns | 4,875 |
| Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns | 0 |
| Institutions | 1,673 |
| Secured by mortgages of immovable properties | 0 |
| Retail exposures | 0 |
| Corporate | 115 |
| Exposures in default | 0 |
| Other exposures | 109 |

# 14 Remuneration Disclosure

As noted in section 1.9, staff support to BNYMIL is provided by employees contracted with the London Branch of the Bank of New York Mellon under an outsourced service arrangement. BNYMIL is not an employing entity. The following information reflects the employment arrangements of the Bank of New York Mellon.

## 14.1 Governance

The governance of remuneration matters for BNYM and its group entities, including BNYMIL, is overseen by four committees, each with separate responsibilities in respect of remuneration as summarised below:

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

**Compensation Oversight Committee of BNYM (COC)** is responsible for providing formal input to the remuneration decision-making process (including the review of remuneration policies for BNYM), which includes reviewing and approving both remuneration arrangements annually and any significant changes proposed to remuneration arrangements (including termination of any arrangement) and advising the HRCC of any remuneration-related issues. The members of the COC are senior members of BNYM management, including the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer and the Chief Enterprise Risk Officer.

**EMEA Remuneration Governance Committee (ERGC)** is a regional governance committee that was established to ensure alignment of remuneration arrangements operated within BNYM EMEA with local laws and regulations impacting on remuneration. The ERGC is responsible for ensuring that local BNYM EMEA offices implement processes and practices that are consistent with the requirements of local regulators and also have oversight of the functioning and decisions taken by the Remuneration Committees of subsidiaries of BNYM (excluding Investment Management), which are incorporated within the EMEA region, with the exclusion of oversight over individual award decisions.

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

BNYMIL has delegated responsibility for overseeing the development and implementation of the Company's remuneration policies and practices in accordance with the relevant remuneration rules to the ERGC.

In accordance with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) regulatory remuneration requirements the responsibility for overseeing the development and implementation of the Company's remuneration policies and practices, in relation to prescribed PRA and FCA Senior Managers, is held by the Chairman of Europe. This accountability is accomplished through oversight of policies and practices and delegation of key control processes to the Head of International Compensation & Benefits.

BNYM undergoes an annual attestation process to ensure that its remuneration practices comply with all local laws and regulations as well as best market practice. The implementation of BNYM's remuneration policies is subject to an annual independent internal review by the Internal Audit function. External consultants, PwC, were engaged in 2016 and provided initial and high level advice on the remuneration policy developed by the firm.

## 14.2 Aligning Pay with Performance

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

Through the compensation philosophy and principles, the interests of our employees and shareholders are aligned by encouraging actions that contributes to superior financial performance and long-term shareholder value, by rewarding success and by ensuring that incentive compensation arrangements do not encourage employees to take unnecessary and excessive risks that threaten the value of BNY Mellon or benefit individual employees at the expense of shareholders or other stakeholders. The compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. 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, and, where appropriate, granted over equity to align employee remuneration with that of shareholder growth.

## 14.3 Fixed Remuneration

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

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 with regards to any variable remuneration element, including zero variable remuneration.

Employees who are directors of one or more BNY Mellon group entities are not remunerated separately in their capacity as a director of those entities. Independent directors of BNY Mellon only receive fixed remuneration, as disclosed in our annual Proxy Statement to shareholders.

## 14.4 Ratio between Fixed and Variable Pay

In respect of remuneration to material risk takers (MRTs) as determined under the requirements of the PRA and FCA, the shareholder of BNYMIL, The Bank of New York Mellon Corporation, approved an increase in the maximum ratio of Variable to Fixed pay from 100% to 200%. This increase was confirmed by the HRCC on 27 January 2014 on the grounds that the increased ratio would not affect the firm's ability to maintain a sound capital base, and allows for appropriate incentivisation and reward in accordance with our Pay for Performance philosophy.

## 14.5 Variable Compensation Funding and Risk Adjustment

Employees of BNYMIL are eligible to be awarded variable compensation but have no entitlement to such awards which are discretionary in nature.

In general, the incentive pools for the business lines are based on the profitability of each business line, with the potential for adjustment by the COC on the basis of a number of factors, including risk management.

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

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

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

For MRTs, 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. The deferred compensation component awarded in the form of BNY Mellon restricted stock units aligns a portion of the variable compensation award with the management of longer-term business risk.

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

## 14.6 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 with vesting on an annual one-third basis (albeit such compensation may be deferred for longer periods and with a revised vesting schedule, and, for MRTs, in line with regulatory requirements), and will normally be subject to the employee remaining in employment until the deferred payment date (unless provided otherwise under national law). 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 and responsibility of the individual's role (including if they are a MRT), regulatory requirements and the amount and value of the award.

## 14.7 Variable Remuneration of Control Function Staff

The variable compensation awarded to control function staff (e.g. audit, compliance 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.

## 14.8 Quantitative Disclosures

The tables below provide details of the aggregate remuneration of senior management and MRTs for BNYMIL for the year ending 31 December 2016.

The figures illustrate two sets of data:

- BNYMIL Consolidated – which includes MRTs under BNYM (International) Ltd, BNYM (International) Ltd – Luxembourg Branch and BNYM Trust & Depositary (UK) Ltd

- BNYMIL Solo - which includes MRTs under BNYM (International) Ltd and BNYM (International) Ltd – Luxembourg Branch

Both sets of data (see paragraph 1.7) also include staff who are contracted to the London Branch of the Institutional Bank but have a material impact on BNYMIL.

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

### Table 30: Aggregate remuneration expenditure by business

This table shows the aggregate remuneration expenditure for MRTs in 2016 by business.

| (£000s) | BNYMIL (Consolidated) | | | BNYMIL (Solo) | | |
|---|---|---|---|---|---|---|
| | Investment Services | Other[2] | Total | Investment Services | Other[2] | Total |
| Total remuneration [1] | 1,557 | 958 | 2,515 | 1,557 | 958 | 2,515 |

*[1]Includes base salary and other cash allowances, plus any incentive awarded for full year 2016. Pension contribution is not included.*

*[2]Includes all support functions and general management positions.*

*Note: During 2016 there were 8 executive directorships (6 BNYMIL and 2 BNYMTDUKL) that are also deemed MRTs however their emoluments were borne by fellow group undertakings outside of BNYMIL group and hence not reported above.*

### Table 31: Aggregate remuneration expenditure by remuneration type

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

| | BNYMIL (Consolidated) | | | BNYMIL (Solo) | | |
|---|---|---|---|---|---|---|
| | Senior Management[3] | Other MRTs | Total | Senior Management[3] | Other MRTs | Total |
| Number of beneficiaries | 0 | 16 | 16 | 0 | 16 | 16 |
| Fixed remuneration (£000s) [4] | 0 | 2,000 | 2,000 | 0 | 2,000 | 2,000 |



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| (continued) | BNYMIL (Consolidated) | | | BNYMIL (Solo) | | |
|---|---|---|---|---|---|---|
| | Senior Management[3] | Other MRTs | Total | Senior Management[3] | Other MRTs | Total |
| Total variable remuneration (£000s) | 0 | 515 | 515 | 0 | 515 | 515 |
| Variable cash (£000s) | 0 | 371 | 371 | 0 | 371 | 371 |
| Variable shares (£000s) | 0 | 144 | 144 | 0 | 144 | 144 |
| Total deferred remuneration awarded during the financial year (£000s) | 0 | 144 | 144 | 0 | 144 | 144 |
| Total deferred remuneration paid out during the financial year (£000s) | 0 | 92 | 92 | 0 | 92 | 92 |
| Total deferred remuneration reduced through performance adjustments (£000s) | 0 | 0 | 0 | 0 | 0 | 0 |

*[3]Senior management is comprised of MRTs categorised as 'Senior Managers' who carry out a senior management function as determined by the relevant regulators.*

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

*Note: During 2016 there were 8 executive directorships (6 BNYMIL and 2 BNYMTDUKL) that are also deemed MRTs however their emoluments were borne by fellow group undertakings outside of BNYMIL group and hence not reported above.*

### Table 32: Deferred Variable Remuneration

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

| | BNYMIL (Consolidated) | | | BNYMIL (Solo) | | |
|---|---|---|---|---|---|---|
| | Senior Management | Other MRTs | Total | Senior Management | Other MRTs | Total |
| Number of beneficiaries | 0 | 16 | 16 | 0 | 16 | 16 |
| Total deferred variable remuneration outstanding from previous years (£000s) | 0 | 495 | 495 | 0 | 495 | 495 |
| Total vested (£000s)[5] | 0 | 92 | 92 | 0 | 92 | 92 |
| Total unvested (£000s)[6] | 0 | 403 | 403 | 0 | 403 | 403 |

*[5]Includes total vested cash and equity. Equity portion is valued as at the date the award vested.*

*[6]Total unvested equity is valued as at 1st February, 2017.*

*Note: During 2016 there were 8 executive directorships (6 BNYMIL and 2 BNYMTDUKL) that are also deemed MRTs however their emoluments were borne by fellow group undertakings outside of BNYMIL group and hence not reported above.*

In regards to 2016 awards, BNYMIL did not award any sign-on or severance payments. There were also no individuals remunerated GBP 1 million or more.

# 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.

BNYMIL 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. BNYMIL 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 forms 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 the risk of sustaining loss arising from non-compliance with laws, regulations, directives, 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 coming 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.

BNYMIL aims to comply with the applicable laws, regulations, policies, procedures and BNYMIL'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 BNYM's brand and relationships which does not arise out of any error. It can arise from all aspects of business activities, including but not limited to operational failures in business practices, legal or regulatory sanctions, joint ventures with outside firms, engagements with third party vendors, or off-balance sheet activities.

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

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

### Legal Risk

Legal Risk is the risk of inadequate legal advice, inadequate contractual arrangements and failing to take appropriate legal measures to protect rights or changes in laws or regulations. Legal Risk could crystallise through:

- Receipt or provision of wrong or inadequate legal advice
- Failure to manage litigation or disputes effectively
- Failure to identify and implement changes in legislation or law
- Failure to appropriately make notifications required as a result of legal requirements
- Failure to ensure adequate contractual arrangements (excluding outsourcing arrangements)
- Failure to manage and/or protect the infringement of rights arising outside of contracts

### Settlement Risk

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

BNYMIL is not subject to settlement risk as it holds no securities, or commodities commitments to settle during the reporting period. BNYMIL has no trading book. Since January 2014, the bank transacts FX trades for banking book purposes with intra-group legal entities and trades are settled within one business day. To date, BNYMIL has not experienced any unsettled FX transactions.

### Non-Trading Book Exposures in Equities

BNYMIL did not have any non-trading book exposures in equities as at 31 December 2016 or during the reporting period.

### Securitisation Risk

Securitisation risk is the risk that the capital resources held in respect of assets that BNYMIL has securitised is insufficient to cover associated liabilities. As at 31 December 2016 and during the reporting period BNYMIL 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 BNYMIL's operations, or if contracts with any of the third party providers are terminated, that BNYMIL may not be able to find alternative providers on a timely basis or on equivalent terms.

BNYMIL relies on internal and external outsourcing entities within and outside of the BNY Mellon group to perform its core business activities. To date, BNYMIL 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 external third parties.

BNYMIL'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 BNYMIL'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 BNYMIL occurs within the Asset Servicing and Alternative Investment Services businesses mainly driven by the fact that fees are based on the net asset value of clients. As business risk is difficult to assess, it has been defined as the residual risks that confront BNYMIL after taking all known and quantifiable risks into consideration.

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

### Concentration Risk

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

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

BNYMIL 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 BNYMIL 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, BNYMIL has a number of dependencies on BNY Mellon. These include business leadership, dependency on certain IT systems and support services provided by central functions.

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

### Model Risk

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

Model risk can result in material financial loss, inaccurate financial or regulatory reporting, misaligned business strategies or damage to the reputation of BNYMIL or BNY Mellon as a whole. BNYMIL 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 performed by a designated independent model validation function. Tier 1 models are required to be validated or reviewed, as per the validation standards, at least annually.

BNY Mellon Internal Audit provides independent reviews of compliance with the corporate model validation policy.

### Strategic Risk

Strategic risk is defined as the risk 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 BNYMIL, or failure to deliver business value through new strategic initiatives.

### Country Risk

Country risk is the risk of adverse impact on operating profits and/or value of assets due to changes in the business environment resulting from political or macroeconomic factors. It can also arise from 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. BNYMIL is not an employing entity and therefore has no pension liabilities as it does not participate in a Company sponsored pension plan.

# 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 Corporation
- **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
- **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:** BNYMIL's risk governance framework has been developed in conjunction with BNY Mellon requirements. Key elements of the framework are:

  - Formal governance committees, with mandates and defined attendees

  - Clearly defined escalation processes, both informally (management lines) and formally (governance committees, board, etc.)

  - A clear business as usual process for identification, management and control of risks

  - Regular reporting of risk issues

- **Risk Management Committee (RMC):** A committee which meets on a monthly basis to provide governance on risk related items arising from the business of the group

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

- **Standardised Approach:** Method used to calculate credit risk capital requirements using the Basel III, CRD IV, CRR model supplied by the BCBS. All financial institutions must opt to either use the Standardised Approach (SA) specified by the regulator, or develop and use their own Internal Ratings Model (IRM). The SA model uses external credit assessment institution ratings and supervisory risk weights supplied by external credit assessment agencies

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

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

# Appendix 3 CRD IV Reference

| CRR ref. | Requirement summary | Compliance ref. | Page ref. |
|---|---|---|---|
| *Scope of disclosure requirements* | | | |
| 431 (1) | Institutions shall publish Pillar 3 disclosures | BNY Mellon publishes Pillar 3 disclosures | N/A |
| 431 (2) | Firms with permission to use specific operational risk methodologies must disclose operational risk information | N/A | N/A |
| 431 (3) | Institutions shall adopt a formal policy to comply with the disclosure requirements | BNY Mellon has a dedicated Pillar 3 policy | N/A |
| 431 (4) | Explanation of ratings decision upon request | N/A | N/A |
| *Non-material, proprietary or confidential information* | | | |
| 432 (1) | Institutions may omit disclosures if the information is not regarded as material (except Articles 435(2)(c), 437 and 450) | Refer to Pillar 3 policy | N/A |
| 432 (2) | Institutions may omit information that is proprietary or confidential if certain conditions are respected | Refer to Pillar 3 policy | N/A |
| 432 (3) | Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed | N/A | N/A |
| 432 (4) | Paragraphs 1, 2 & 3 are without prejudice to the scope of the liability for failure to disclose material information | | |
| *Frequency of disclosure* | | | |
| 433 | Institutions shall publish the disclosures required at least on an annual basis, in conjunction with the date of the publication of the financial statements | Refer to Pillar 3 policy | N/A |
| *Means of disclosure* | | | |
| 434 (1) | Institutions may determine the appropriate medium, location and means of verification to comply effectively | Single Pillar 3 disclosure | N/A |
| 434 (2) | Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate | Any cross-references to accounting or other disclosures are clearly signposted in this document | N/A |
| *Risk management objectives and policies* | | | |
| 435 (1) | Institutions shall disclose their risk management objectives and policies | Section 4 Risk Management Objectives and Policy | 22-31 |
| 435 (1) (a) | Strategies and processes to manage those risks | Section 4.1 Risk Objectives | 22 |
| 435 (1) (b) | Structure and organisation of the risk management function | Section 4.2 Risk Governance | 23 |
| 435 (1) (c) | Scope and nature of risk reporting and measurement systems | Section 4.1 - 4.16 | 22-31 |
| 435 (1) (d) | Policies for hedging and mitigating risk | Section 4.3 - 4.16 | 25-31 |
| 435 (1) (e) | Approved declaration on the adequacy of risk management arrangements | Section 4 Risk Management Objectives and Policy | 22-31 |
| 435 (1) (f) | Approved risk statement describing the overall risk profile associated with business strategy | Section 4 Risk Management Objectives and Policy | 22-31 |
| 435 (2) (a) | Number of directorships held by directors | Section 4.2.1 Board of Directors | 23 |
| 435 (2) (b) | Recruitment policy of Board members, their experience and expertise | Section 4.2.1 Board of Directors | 23 |

| | | | |
|---|---|---|---|
| 435 (2) (c) | Policy on diversity of Board membership and results against targets | Section 4.2.1 Board of Directors | 23 |
| 435 (2) (d) | Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year | Section 4.2.2 - 4.2.5 | 23-25 |
| 435 (2) (e) | Description of information flow on risk to Board | Section 4.2.2 - 4.2.5 | 23-25 |
| *Scope of application* | | | |
| 436 (a) | The name of the institution to which the requirements of this Regulation apply | Section 1 Scope of Application | 6-13 |
| 436 (b)<br><br><br>436 (b) (i)<br>436 (b) (ii)<br>436 (b) (iii)<br>436 (b) (iv) | Outline the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are:<br>fully consolidated;<br>proportionally consolidated;<br>deducted from own funds;<br>neither consolidated nor deducted | Section 1 Scope of Application | 6-13 |
| 436 (c) | Current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries | N/A | N/A |
| 436 (d) | Aggregate amount by which the actual Own Funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries | N/A - Entities outside the scope of consolidation are appropriately capitalised | N/A |
| 436 (e) | If applicable, the circumstance of making use of the provisions laid down in Articles 7 & 9 | N/A | N/A |
| *Own funds* | | | |
| 437 (1) | Requirements regarding capital resources table | Section 2 Own Funds | 14-19 |
| 437 (1) (a) | Full reconciliation of Common Equity Tier 1 (CET1) items | Table 2: Capital resources | 14 |
| 437 (1) (b) | Description of the main features of the CET1 and Additional Tier 1 and Tier 2 instruments | Table 3: Composition of regulatory capital | 16 |
| 437 (1) (c) | Full terms and conditions of all CET1, Additional Tier 1 and Tier 2 instruments | Table 3: Composition of regulatory capital | 16 |
| 437 (1) (d) (i)<br>437 (1) (d) (ii)<br>437 (1) (d) (iii) | Each prudent filter applied<br>Each deduction made<br>Items not deducted | Table 2: Capital resources | 14 |
| 437 (1) (e) | Description of all restrictions applied to the calculation of Own Funds | N/A - no restrictions apply | N/A |
| 437 (1) (f) | Explanation of the basis of calculating capital ratios using elements of Own Funds | N/A - Capital ratios calculated on basis stipulated in the Regulations | N/A |
| 437 (2) | EBA to publish implementation standards for points above | BNYM follows the implementation standards | N/A |
| *Capital requirements* | | | |
| 438 (a) | Summary of institution’s approach to assessing adequacy of capital levels | Section 3 Capital Requirements | 20-21 |
| 438 (b) | Result of ICAAP on demand from authorities | N/A | N/A |
| 438 (c) | Capital requirement amounts for credit risk for each Standardised Approach exposure class | Table 7: Standardised credit exposure by exposure class | 35 |
| 438 (d)<br>438 (d) (i)<br>438 (d) (ii)<br>438 (d) (iii)<br>438 (d) (iv) | Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class | N/A – internal ratings based approach is not used | N/A |

| | | | |
|---|---|---|---|
| 438 (e) | Own funds requirements for market risk or settlement risk, or large exposures where they exceed limits | Table 6: Capital requirements and Section 10: Market Risk | 21 & 49 |
| 438 (f) | Own funds amounts for operational risk, separately for the basic indicator approach, the standardised approach, and the advanced measurement approaches as applicable | Table 6: Capital requirements and Section 12: Operational Risk | 20 & 50-52 |
| 438 (endnote) | Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach | Table 6: Capital requirements | 20 |
| *Exposure to counterparty credit risk (CCR)* | | | |
| 439 (a) | Description of process to assign internal capital and credit limits to CCR exposures | Section 8 Counterparty Credit Risk | 45-46 |
| 439 (b) | Discussion of process to secure collateral and establishing reserves | Section 8 Counterparty Credit Risk | 45-46 |
| 439 (c) | Discussion of management of wrong-way exposures | Section 8 Counterparty Credit Risk | 45-46 |
| 439 (d) | Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade | N/A – a credit ratings downgrade is managed at the BNYM Corp level | N/A |
| 439 (e) | Derivation of net derivative credit exposure | Section 8 Counterparty Credit Risk | 45-46 |
| 439 (f) | Exposure values for mark-to-market, original exposure, standardised and internal model methods | Section 8 Counterparty Credit Risk | 45-46 |
| 439 (g) | Notional value of credit derivative hedges and current credit exposure by type of exposure | N/A – BNYM does not have credit derivative transactions | N/A |
| 439 (h) | Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type | N/A – BNYM does not have credit derivative transactions | N/A |
| 439 (i) | Estimate of alpha, if applicable | N/A | N/A |
| *Capital buffers* | | | |
| 440 (1) (a) | Geographical distribution of relevant credit exposures | N/A | N/A |
| 440 (1) (b) | Amount of the institution specific countercyclical capital buffer | N/A | N/A |
| 440 (2) | EBA will issue technical implementation standards related to 440 (1) | N/A | N/A |
| *Indicators of global systemic importance* | | | |
| 441 (1) | Disclosure of the indicators of global systemic importance | N/A | N/A |
| 441 (2) | EBA will issue technical implementation standards related to 441 (1) | N/A | N/A |
| *Credit risk adjustments* | | | |
| 442 (a) | Disclosure of bank's definitions of past due and impaired | Section 5.7 Analysis of Past Due and Impaired Exposures | 36-39 |
| 442 (b) | Approaches for calculating credit risk adjustments | Section 5.7 Analysis of Past Due and Impaired Exposures | 36-39 |
| 442 (c) | Disclosure of pre-CRM EAD by exposure class | Section 5.6 Table 7: Standardised credit exposure by exposure class | 35 |
| 442 (d) | Disclosures of pre-CRM EAD by geography and exposure class | Section 5.6 Table 8: Standardised credit exposure by country | 35 |
| 442 (e) | Disclosures of pre-CRM EAD by industry and exposure class | Section 5.6 Table 9: Standardised post mitigated credit exposures by counterparty type | 36 |

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|---|---|---|---|
| 442 (f) | Disclosures of pre-CRM EAD by residual maturity and exposure class | Section 5.6 Table 10: Standardised credit exposure by residual maturity | 36 |
| 442 (g)<br>442 (g) (i)<br>442 (g) (ii)<br>442 (g) (iii) | Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type | Section 5.7 Table 11: Credit quality of exposures by counterparty type | 37 |
| 442 (h) | Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography | Section 5.7 Table 13: Credit quality of exposures by country | 39 |
| 442 (i)<br>442 (i) (i)<br>442 (i) (ii)<br>442 (i) (iii)<br>442 (i) (iv)<br>442 (i) (v) | Reconciliation of changes in specific and general credit risk adjustments | Section 5.7 Analysis of Past Due and Impaired Exposures | 36-39 |
| 442 endnote | Specific credit risk adjustments recorded to income statement are disclosed separately | Section 5.7 Analysis of Past Due and Impaired Exposures | 36-39 |
| *Unencumbered assets* | | | |
| 443 | Disclosures on unencumbered assets | Section 9 Asset Encumbrance | 47 |
| *Use of ECAIs* | | | |
| 444 (a) | Names of the ECAIs used in the calculation of Standardised Approach RWAs, and reasons for any changes | Section 7 External Credit Assessment Institutions (ECAIs) | 42-44 |
| 444 (b) | Exposure classes associated with each ECAI | Section 7 Table 15: Credit quality steps and risk weights | 42 |
| 444 (c) | Explanation of the process for translating external ratings into credit quality steps | Section 7 Table 16: Credit quality steps and risk weights | 42 |
| 444 (d) | Mapping of external rating to credit quality steps | Section 7 External Credit Assessment Institutions (ECAIs) | 42-44 |
| 444 (e) | Exposure value pre and post-credit risk mitigation, by credit quality step | Section 7 Table 15-18: External Credit Assessment Institutions (ECAIs) | 42-44 |
| *Exposure to market risk* | | | |
| 445 | Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk | Section 10 Market Risk | 48 |
| *Operational risk* | | | |
| 446 | Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered | Section 12 Operational Risk | 50-52 |
| *Exposure in equities not included in the trading book* | | | |
| 447 (a) | Differentiation of exposures based on objectives | Appendix 1 Settlement Risk: no non-trading book exposure in equities | 60 |
| 447 (b) | Recorded and fair value, and actual prices of exchange traded equity where it differs from fair value | Appendix 1 Settlement Risk: no non-trading book exposure in equities | 60 |
| 447 (c) | Types, nature and amounts of the relevant classes of equity exposures | Appendix 1 Settlement Risk: no non-trading book exposure in equities | 60 |
| 447 (d) | Realised cumulative gains and losses on sales over the period | Appendix 1 Settlement Risk: no non-trading book exposure in equities | 60 |
| 447 (e) | Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital | Appendix 1 Settlement Risk: no non-trading book exposure in equities | 60 |
| *Exposure to interest rate risk on positions not included in the trading book* | | | |

| | | | |
|---|---|---|---|
| 448 (a) | Nature of risk and key assumptions in measurement models | Section 10: The Bank has no significant Balance Sheet Interest Rate Risk because no maturity mismatch exists between client cash deposits and Bank's cash holdings. In addition, interest rates applicable to clients' cash deposits are market driven | 48 |
| 448 (b) | Variation in earnings or economic value, or other measures used by the bank from upward and downward shocks to interest rates, by currency | Section 11 Table 26: Net interest income sensitivity by currency | 49 |
| *Exposure to securitisation positions* | | | |
| 449 | Exposure to securitisations positions | Appendix 1 Settlement Risk: no non-trading book exposure in equities | 60 |
| *Remuneration disclosures* | | | |
| 450 | Remuneration disclosure regarding remuneration policy and practices | Section 14 Remuneration Disclosure | 55-58 |
| 450 (1) (a) | Information concerning the decision-making process used for determining the remuneration policy | Section 14.1 Governance | 55 |
| 450 (1) (b) | Information on link between pay and performance | Section 14.2 Aligning Pay with Performance | 56 |
| 450 (1) (c) | Important design characteristics of the remuneration system | Section 14 Remuneration Disclosure | 55-58 |
| 450 (1) (d) | Ratios between fixed and variable remuneration | Section 14.5 Ratio between Fixed and Variable Pay | 57 |
| 450 (1) (e) | Information on the performance criteria on which the entitlement to shares, options and variable components of remuneration is based | Section 14.6 Deferral Policy and Vesting Criteria | 57 |
| 450 (1) (f) | Main parameters and rationale for any variable component scheme and any other non-cash benefits | Section 14.7 Variable Remuneration of Control Function Staff | 58 |
| 450 (1) (g) | Aggregate quantitative information on remuneration by business area | Section 14.8 Table 30: Aggregate Remuneration Expenditure by Business | 58 |
| 450 (1) (h)<br>450 (1) (h) (i)<br>450 (1) (h) (ii)<br>450 (1) (h) (iii)<br>450 (1) (h) (iv)<br>450 (1) (h) (v)<br>450 (1) (h) (vi) | Aggregate quantitative information on remuneration, broken down by senior staff management and members of staff whose actions have a material impact on the risk profile | Section 14.8 Table 31: Aggregate Remuneration Expenditure by Remuneration Type | 58 |
| 450 (1) (i) | Number of individuals being remunerated £1 million or more per financial year | Section 14.8 | 58 |
| 450 (1) (j) | Total remuneration for each member of the management body upon demand from the Member State or competent authority | N/A | N/A |
| 450 (2) | For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information above shall be made available to the public at the level of members of the management body of the institution | N/A | N/A |
| *Leverage* | | | |
| 451 (1) (a) | Leverage ratio | Section 13 Leverage Ratio | 53-54 |

| | | | |
|---|---|---|---|
| 451 (1) (b) | Breakdown of total exposure measure | Section 13 Table 28: Leverage ratio common disclosure | 53 |
| 451 (1) (c) | Derecognised fiduciary items | N/A | N/A |
| 451 (1) (d) | Description of the process used to manage the risk of excessive leverage | N/A | N/A |
| 451 (1) (e) | Description of the factors that had an impact on the leverage ratio | Section 13 Leverage Ratio | 53-54 |
| 451 (2) | EBA to publish implementation standards for points above | BNYM follows the implementation standards | N/A |
| *Use of the IRB approach to credit risk* | | | |
| 452 | Risk-weighted exposure under the IRB approach | N/A | N/A |
| *Use of credit risk mitigation techniques* | | | |
| 453 (a) | Use of on- and off-balance sheet netting | Section 6.1 Netting | 40 |
| 453 (b) | How collateral valuation is managed | Section 6.2 Collateral Valuation and Management | 40 |
| 453 (c) | Description of types of collateral used | Section 6.3 Collateral Types | 40 |
| 453 (d) | Types of guarantor and credit derivative counterparty, and their creditworthiness | N/A - BNYM's EMEA entities do not enter into credit derivative transactions | N/A |
| 453 (e) | Disclosure of market or credit risk concentrations within risk mitigation exposures | Section 6.4 Credit Risk Concentration | 40-41 |
| 453 (f) | For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral | N/A | N/A |
| 453 (g) | Exposures covered by guarantees or credit derivatives | Section 6.4 Table 14: Credit risk mitigation techniques – overview | 43 |
| *Use of the Advanced Measurement Approaches to operational risk* | | | |
| 454 | Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk | N/A - Pillar 1 : standardized approach, Pillar 2 : self-assessment approach | N/A |
| *Use of internal market risk models* | | | |
| 455 | Institutions calculating their capital requirements using internal market risk models | N/A | N/A |
| *Commission Implementing Regulation (EU) No 1423/2013* | | | |
| Article 1 | Specifies uniform templates for the purposes of disclosure | N/A | N/A |
| Article 2 | Full reconciliation of own funds items to audited financial statements | Section 2 Own Funds | 14-19 |
| Article 3 | Description of the main features of CET1, AT1 and Tier 2 instruments issued (Annex II and III) | Table 5: Tier 2 instruments | 19 |
| Article 4 | Disclosure of nature and amounts of specific items on own funds (Annex IV and V) | Table 4: Transitional own funds | 16 |
| Article 5 | Disclosure of nature and amounts of specific items on own funds during transitional period (Annex VI and VII) | Table 4: Transitional own funds | 16 |
| Article 6 | Entry into force from 31 March 2014 | N/A | N/A |

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