



The Bank of New York Mellon SA/NV

Pillar 3 Disclosures for the year ended 31st December 2010

About Pillar 3 Disclosures

Preparation and policy

The board of Directors of The Bank of New York Mellon SA/NV adopts this policy to comply with disclosure requirements and for assessing the appropriateness of the company's Pillar 3 Market disclosures, including their verification and frequency.

Disclosure will be made annually based on calendar year end and will be published as soon as possible after this date. The company will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy and information about risk exposure and other items prone to rapid change.

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

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

The Board may omit one or more disclosures if the information provided is regarded as confidential. In this circumstance, the Board will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure, and will publish more general information about the subject matter of the disclosure requirement except where these are to be classified as secret or confidential.

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

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

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1 Background

1.1 Purpose of Pillar 3

Basel II is the international banking accord intended to strengthen the measurement and monitoring of financial institutions' capital. The Basel II framework was implemented in the EU through the capital requirement directive. The Basel II framework establishes a more risk sensitive approach to capital management and is comprised of three pillars:

Pillar 1 establishes rules for the calculation of minimum capital for credit, market and operational risk.

Pillar 2 is an internal discipline to evaluate the adequacy of the regulatory capital requirement under Pillar 1 and other non Pillar 1 risks. This pillar requires the financial regulator to undertake a supervisory review to assess the robustness of internal assessment.

Pillar 3 complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to better understand the risk profile of regulated financial institutions and to make comparison.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. The disclosures are to be made to the market for the benefit of the market.

1.2 Key events

The Bank of New York Mellon SA/NV (BNYMSA) is a fully owned subsidiary of The Bank of New York Mellon. The Bank of New York Mellon is the main banking entity of The Bank of New York Mellon Corporation (BNYM).

BNYM is a financial holding focusing its activities on Securities Servicing, Assets and Wealth management and, finally, Treasury Services. Securities Servicing represents around 63% of the revenues of BNYM. BNYMSA is its main banking subsidiary in Continental Europe. It focuses its activities on the securities servicing segment. Its main product is the custody of assets. It is offered either to third party clients or to internal clients of BNYM. This product is offered either as stand alone or bundled with others like the depository bank function, the performance and analysis, the securities lending agency, and the fund accounting.

The securities servicing segment generates substantial operational cash balances that are managed by the Treasury of BNYMSA to minimize the risk while ensuring return.

The client base of BNYMSA is made of institutional clients active in the investment into financial assets. The main sectors are the pension funds, insurance companies, banks and assets managers.

2 Risk management objectives and policies

2.1 Overall Principle

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

Risk is inherent in the Bank's activities but within the BNYMSA, risk is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within BNYMSA is accountable for the risk exposures relating to its responsibilities. BNYMSA is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

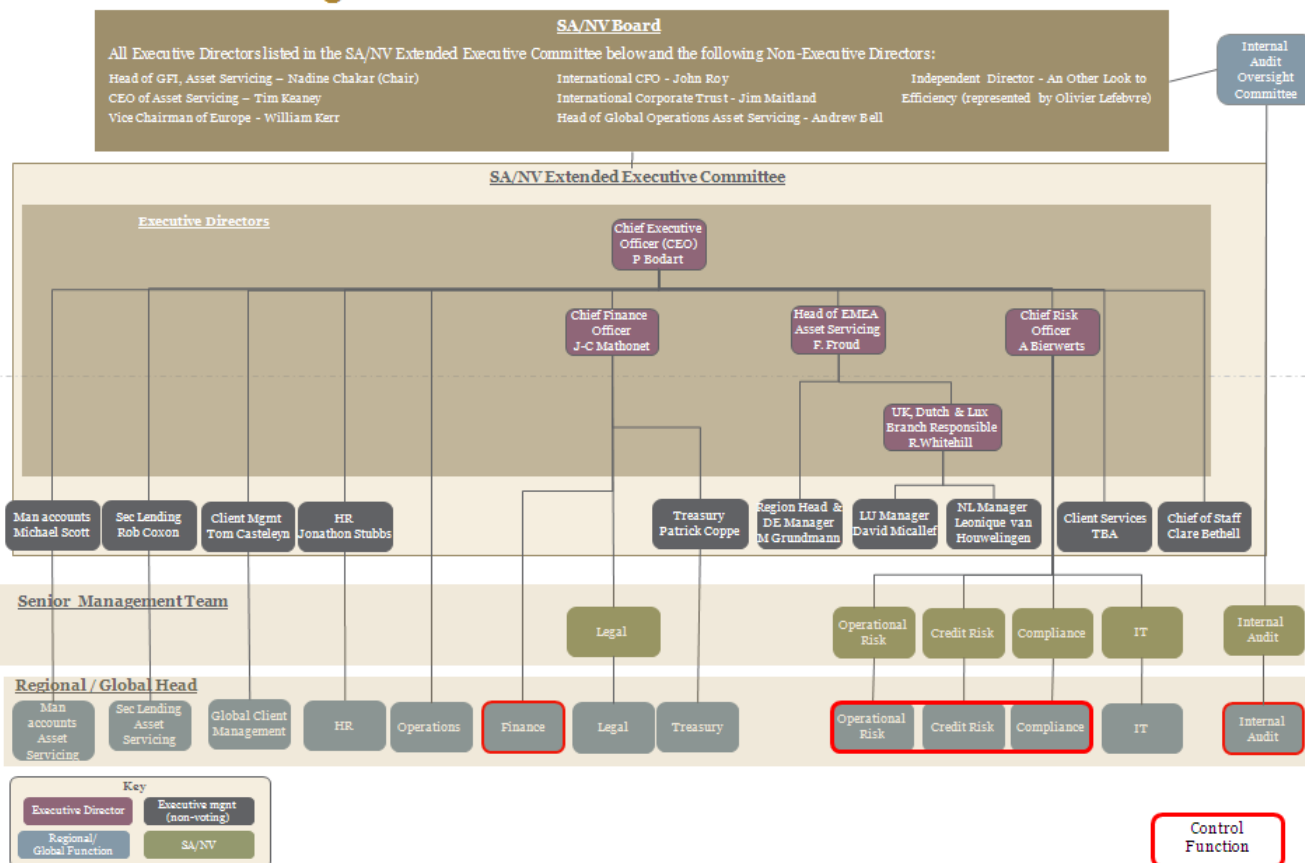
The independent risk control process does not include business risks such as changes in the environment, technology and industry. The BNYM's policy is to monitor those business risks through BNYM's strategic planning process.

The objective of BNYMSA is to keep regulatory capital ratio above 11%.

2.2 Governance and Risk Management Framework

The Board is responsible for all the business strategy and objectives decision whereas the day to day management responsibility rests with the Executive Committee (EC). Paul Bodart is the Chief Executive Officer (CEO) of this Committee (a new appointment in 2011). The sub-committee of the EC that is the focus of this section is the Risk Management Committee (RMC). This committee is responsible for overseeing the risks undertaken by the various lines of business and make decisions as appropriate.

BNYM SA/NV Organisation Structure



Board of Directors Composition and Function

The Board of SA/NV is composed of a minimum of seven non-executive directors including an independent director and five executive members of SA/NV who are also members of the Executive Committee. There shall always be a majority of non-executive directors in the Board. Its main duties and responsibilities that may be discharged through Board Committees include:

- planning of the implementation of the general business strategy, objectives and values of BNYM within the SA/NV
- approving and assessing on a regular basis the management, internal control and independent control function structure and in particular assess the efficiency and integrity of the internal control structure regarding the financial reporting process;
- delegating the daily management to the Executive Committee without any delegation regarding the planning of the implementation of the general strategy within the subsidiary;
- selecting and evaluating the President and Deputy President of the Executive Committee and reviewing the process for the selection, evaluation, and development of other key managers;
- ensuring the succession planning for key managers; reviewing the subsidiary's processes for protecting the subsidiary's assets and reputation; and
- approving policies and procedures as may be required by law or otherwise appropriate

- reviewing the subsidiary's processes for compliance with applicable laws, regulations (CBFA, etc) and the Code of Conduct

The Subcommittees of the Board of Directors are

- Executive Committee;
- Audit Oversight Committee;
- Remuneration Committee (a new Committee in 2011)

Executive Committee

The SA/NV Executive Committee is composed of 5 executive directors of SA/NV including one “President and CEO” (the same person may act as both President of the Executive Committee and CEO) and one “Deputy President and Deputy CEO”. These are the voting members of the Committee.

The activities of SA/NV covers a wide range of commercial and operational functions spread through a European Branch network and the Executive Committee has been extended through the addition of a specific group of non-voting managers who can provide the appropriate insight and perspective on some of the core functions and services.

For the purposes of this document, this extended committee will continue to be referred to as the Extended Executive Committee (“SA/NV EEC”). Through the SA/NV EEC, the Executive Committee provides oversight and management as it relates to SA/NV and business segments. It is the role of the SA/NV EEC to ensure that the culture across the company facilitates the performance of business activities with integrity, efficiency and effectiveness. The SA/NV EEC shall keep abreast of corporate initiatives including the strategic ones, financial performance, new business initiatives, policy changes, controls and organizational development.

Subcommittees of the SA/NV Executive Committee and other EMEA Committees with SA/NV representation:

Subcommittees	Key Responsibilities	Membership/ SA/NV Representation
Risk Management Committee	Discussed in section 2.8	Discussed in section 2.8

<p align="center">Belgium Asset & Liability Committee (ALCO)</p>	<p>ALCO gets its authority from the SA/NV Executive Committee and the EMEA ALCO Committee. It is responsible for monitoring the asset & liability management activities for the following entities:</p> <ul style="list-style-type: none"> • The Bank of New York Mellon Brussels Branch • The Bank of New York Mellon SA/NV (including the Frankfurt Branch, Amsterdam Branch, UK Branch, Luxembourg Branch, BAS and FSKAG) <p>The Terms of reference have been approved by the SA/NV Executive Committee on 17 March 2011 and is attached in appendix 1.</p>	<p><u>Permanent Members</u></p> <p>Paul Bodart Jean-Christophe Mathonet Dennis Patrikios Marcus Gaster Alan Bierwerts Patrick Coppe Robin Savchuck</p> <p><u>Ex-Officio</u></p> <p>Christophe de Maet Annik Bosschaerts</p>
<p align="center">EMEA Asset & Liability Committee (EMEA ALCO)</p>	<ul style="list-style-type: none"> • Oversees activities related to balance sheet and asset/liability management for European business; • Ensure adequate liquidity and oversee liquidity management in EMEA; • Oversee asset and liability volume and pricing activity; • Monitor interest rate sensitivity; • Balance net interest income maximization with interest rate risk; • Monitor fixed income investment portfolio; • Resolve transfer pricing issues; • Approve policies related to above activities; • Ensure compliance with all regulatory requirements 	<p>Paul Bodart Jean-Christophe Mathonet</p>
<p align="center">EMEA Business Acceptance Committee (EMEA BAC)</p>	<p>Its objective is to provide oversight and guidance for the activities of BNYM Asset Servicing related to any piece of business that deviates from the Basel’s standards in terms of:</p> <ul style="list-style-type: none"> • Fees pricing, • Legal contract, • Operational requirements; • Risks profile; • Deal structure. <p>The BAC is held twice a week and covers the new business acceptance and for existing businesses: fee renegotiation, new operational</p>	<p>SA/NV managers, including managers from its four branches, sit at this Committee when SA/NV deals have to be approved.</p> <p>SA/NV managers are also called on an ad-hoc basis to the Corporate Trust committee as deals pertaining to the SA/NV are evaluated.</p>

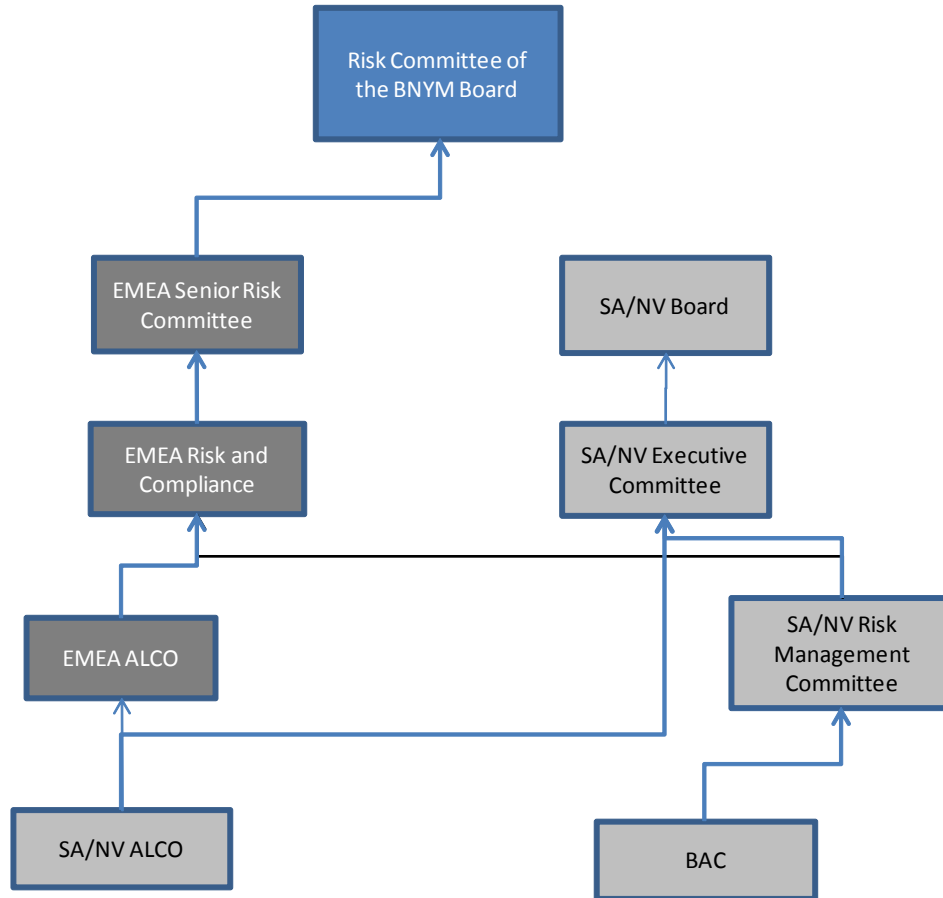
	<p>requirements, additional risk profile</p> <p>A similar BAC exists for the Broker Dealer Services and Corporate Trust businesses.</p>	
<p>Anti – Money laundering Oversight Committee (EMEA AMLOC)</p>	<p>EAMLOC is responsible for ensuring the arrangements in respect of the following are and remain compliant with local law, regulations and guidance, and BNYM policies for the following:</p> <ul style="list-style-type: none"> • Money Laundering and Suspicious Activity Reporting/Incident identification and reporting • Controls to prevent and investigate fraud • Controls to prevent and investigate market abuse • Customer due diligence • Transaction monitoring • Compliance with sanctions legislation • Financial crime related training 	<p>Paul Bodart Alan Bierwerts</p>

The following regional Governance Committees have been acknowledged as having oversight to the activities in the SA/NV, as affirmed in an EMEA Governance review conducted between Q4 2010 and Q1 2011:

- EMEA Executive Committee
- EMEA Senior Risk Management Committee
- EMEA Risk and Compliance Committee
- EMEA Controls Committee
- EMEA Legal Entity Committee
- EMEA Asset Servicing Executive Committee

2.3 Risk Management Framework

The structure of the risk management framework is represented in the following chart:



BNYM SA/NV Risk Management Committee (RMC)

The key purpose of the RMC is to provide oversight of the risk management process for the underlying businesses and subsidiaries and ensure that risks are identified, monitored and reported. The RMC is responsible for ensuring that risk and compliance activities undertaken by SA/NV and its underlying subsidiaries and businesses are executed in accordance with internal policies and all relevant regulations.

The following responsibilities for the RMC are agreed to by the SA/NV EC:

- Receive and review Risk Management, Compliance and Internal and External Audit reporting and, where appropriate, challenge management actions to address or remediate risk and compliance issues.
- Review new and/ or existing Risk Management policies and procedures across each major risk source.
- Review and approve capital adequacy for the risks undertaken. Consider impact of risk issues on capital for SA/NV and challenge management actions in relation to any capital adequacy concerns.
- Review annually the Business Resumption/Continuity plan.
- Review adequacy of risk management resources.

- Review and provide recommendations on the methodology used in setting Risk Appetite threshold limits for the SA/NV.
- Review and provide recommendations on the top risk identification and assessment of the SA/NV.
- Review adherence to Risk Appetite thresholds and risk control policies or regulation through the review of exception based reporting. Where breaches occur, ensure management undertakes appropriate remedial action and challenge any delays.
- Identify trends and themes in top risks and breaches against Risk Appetite thresholds and risk policies or regulation
- Review and challenge the scenario developments, quarterly stress testing and outcomes for risks appropriate to SA/NV and direct further responses as necessary. Escalate results to the SA/NV Executive Committee and Board for approval.
- Review summary of all new Business Acceptance decisions. *Note approval of these decisions resides with the Business Acceptance Committee of the SA/NV businesses.*
- Review summary of any liquidity risk issues. *Note: approval for decisions relating to liquidity and funding matters resides with the SA/NV ALCO, from 2011.*
- Escalate material risks, issues and/ or trends requiring attention to the SA/NV Executive Committee and Board and relevant EMEA Committees, as appropriate, in accordance with the EMEA escalation policy.

The Terms of reference of this Committee has been approved by the SA/NV Executive Committee. The initial version became applicable as of October 1, 2009. Appendix 2 of this document contains the latest version of the ToR of the RMC.

BAS Risk Approach

SA/NV has expanded the scope of the primary risk management governance committees to encompass the activities of BAS and this is achieved through:

- Requiring attendance of BAS senior management (both entity and risk management representatives) at the SA/NV RMC;
- Provision of BAS specific SA/NV RMC risk submission covering operational, credit, market and liquidity risk matters;
- Incorporating BAS new business into the EMEA BAC utilizing the current SA/NV approval protocols;
- Incorporating BAS balance-sheet review and related emerging risks into the EMEA ALCO;
- Incorporating BAS Anti-Money Laundering and financial fraud related topics into the EAMLOC;

2.4 Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. BNYMSA also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by BNYMSA. These limits reflect the business strategy and market environment of BNYMSA as well as the level of risk that BNYMSA is willing to accept, with additional emphasis on selected industries. In addition, BNYMSA's policy is to

measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Executive Committee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of BNYMSA.

For all levels throughout BNYMSA, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

3 Capital resources and capital adequacy

BNYMSA maintains an actively managed capital base to cover risks inherent to the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the CBFA in supervising BNYMSA. During the past year, BNYMSA had complied in full with all its externally imposed capital requirements.

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

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), BNYMSA defined measurement methods for its economical need in capital as well as management and control methods to encompass its risk policies. Furthermore, stress test scenarii are being worked on.

The difference between the economical capital and the regulatory capital incorporates the margin ensuring that the capital level of BNYMSA is sufficient at all times. The latter is in function of the risk profile and of the risk aversion of BNYMSA

3.1 Capital resources

The available capital is defined according to the decree of the CBFA dated of December 5, 1995 and to the new circulars PPB-2006-3-CPB and PPB-2007-1-CPB issued respectively in 2006 and in 2007 modifying the decree of 1995.

The available capital is made up of original capital (Tier 1) and additional capital (Tier 2) from which some deductions are made.

The original capital is defined as the accounting capital after some adjustments, mainly:

- Anticipation of dividends payment: no dividend was paid in 2010
- Allocation of current year profit to retained earnings and other reserves: 100% of profit allocated to retained earning and reserves
- Deduction of the goodwill and of the other intangible assets

As per agreement of CBFA (ref CPA-AFC/BNYSA EL/DCD/MOS/L.1289) the subordinated debt granted by BNYM GSS Holding Luxembourg is assimilated to original capital (Tier 1)

BNYMSA had no Tier 2 Instruments as end of December 2009

Available Capital - EUR x 1,000,000	2010
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Tier 1 Capital

Called Up Share Capital	1,426
Retained Earnings and Other Reserves (previous years)	53
Profit of the Year Allocated to Earning & Reserves ⁽¹⁾	0
Total	1,479

Subordinated Debt assimilated to Tier 1	346
Total	346

Deduction from Tier 1 Capital

Intangible assets & goodwill	(602)
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Available Tier 1 Capital	1,223
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Tier 2 Capital

Upper Tier 2 Instruments	0
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Available Tier 2 Capital	1,223
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⁽¹⁾ : allocation of profit approved by General Assembly on May the 17th, 2011, as not been included as of 31st of December 2010 (the profit amounts to €180 mio).

3.2 Capital adequacy

<i>Exposures</i> - EUR x 1,000,000	2009 Pillar 1
Credit Risk (Standardised Approach)	664
Operational Risk (Standardised Approach)	98
Market Risk (Standardised Approach)	5
Capital Requirements	767
Surplus / (shortage)	456
Capital Adequacy Ratio	
<i>Capital Resources / Capital Requirements (vs 100%)</i>	159.4%
Solvency Ratio	
<i>Capital Resources / Capital Requirements (regulatory ratio 8%)</i>	12.8%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation less goodwill and other intangible. Certain adjustments are made to IFRS-based results and reserves, Tier I 1 also includes perpetual subordinated debt meeting specific conditions imposed by the CBFA. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, preference shares and available-for-sale reserves.

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

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), BNYMSA defined measurement methods for its economical need in capital as well as management and control methods to encompass its risk policies.

The difference between the economical capital and the regulatory capital incorporates the margin ensuring that the capital level of BNYMSA is sufficient at all times.

4 Description of Risks

4.1 Credit Risk

4.1.1 Definition

Credit risk is the risk of default from counterparties or clients for deposits, loans, commitments, securities and other assets where the realisation of the value of the asset is dependent on their ability to perform. The following are sources of credit exposures in SA/NV:

- Money market activity where placements, mainly short term in nature, are made with high quality financial institutions, including intra-group
- Nostro balances with correspondents and custodians, being long positions held to ensure liquidity of settlement activities.
- Customer overdrafts mostly operational credit related to global custody activities. These are short term in exposure, typically intra-day or overnight. In occasional instances, exposure can result from granting of more traditional credit products.
- Foreign exchange related to global custody activity done in short term and with professional counterparties (e.g. funds) which do not affect the financial statements of SA/NV.
- Securities lending activity where, BNYM - as agent for an institutional customer (the Lender) lends securities to a broker/dealer or bank (the Borrower) against collateral that is made of other securities or cash of an equivalent value (or a mixture of cash and securities).
- Issuer risk from a bond portfolio in BAS. Portfolio with ECB eligible bonds is needed because BAS has to provide collateral and liquidity against actual business activities. The plans are for this portfolio to be held to maturity (latest maturity: March 2014). Interest rate risk is hedged by Interest Rate Swaps.

Credit Risk counterparties in treasury and money market activity are banks and financial institutions; borrowers in custody activity are mainly institutional clients such as mutual funds, pension funds and banks, as custody clients. At a high level, Asset Servicing clients are grouped as regulated funds, unregulated funds and corporate holding companies.

As at 31 December 2010, credit exposures are largely in money market placements (c.84%) followed by nostros (c.13%). The remaining balances are mostly in customer overdrafts. The main credit exposures are placements with intra-group entities (c.€26bn) as client deposits are predominantly re-invested with The Bank of New York Mellon - London Branch (London Branch) for EUR and GBP balances and with The Bank of New York Mellon - Cayman Branch for USD balances. These are invested short term with tenors between five days and a year.

4.1.2 Credit risk management

The credit risk officers based in Brussels are responsible for BNYMSA as a whole. In the branches, there are local teams who are reporting directly on a daily basis to the Credit Risk Officers.

Furthermore, the Credit Risk Officers participate to the monthly RMC where the structural issues are discussed. BNYMSA applies BNY Mellon's corporate policies and standards regarding Credit Risk. These are to manage Credit Risk at Corporate and at line of business level, embedded within appropriate governance, reporting and committee structures to meet the requirements of local regulators.

The BNYMSA Credit Risk Officers report:

- Administratively, to the BNYMSA Chief Risk Officer who is a member of the Executive Committee without conflicting (e.g. commercial) responsibility,
- Functionally, to the Head of Operational Credit, Europe. This person reports ultimately to the Chief Credit Officer, who in turn reports to the Chief Risk Officer of BNY Mellon, who is a member of all critical committees of the Company, provides regular updates to the Risk Committee of the Board of the Corporation.

Additionally the Chief Risk Officer for EMEA has additional oversight for all Risk Management staff in the region. On a need to basis, the Credit Risk Officer can inform the Audit Committee and/or Executive Management of important issues relating to its activities.

The following tasks are performed on a daily basis:

- Collection of information concerning the main sources of credit risk.
- Investigation of individual cases upon a series of pre-set criteria.
- Verification of the resolving status, escalation to the appropriate individuals / service and imposing additional controls and procedures for individual cases if need be.
- Aggregation of daily data and inclusion in the reporting documents to be provided to the monthly Risk Management Committee and the Credit Risk hierarchy.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position (plus a regulatory “add-on” reflecting the future credit risk exposure of these derivatives). The exposure value of derivatives as of 31st of December 2010 is € 2.4 mio.

4.1.3 Risk framework

The Bank uses Moody’s KMV Portfolio Manager to determine the amount of economic capital consumed by the Company’s credit exposures.

Risk Metrics is used to calculate the Value at Risk (VaR) on the Company’s securities lending portfolio. Based on one year of historical observations (260 business days), Risk Metrics uses the historical simulation method to compute 99% five day VaR. For those securities that Risk Metrics cannot recognize, conservative haircuts are applied. The total VaR is calculated with a quarterly adjusted multiplier.

The risk management process of BNYMSA is set up in accordance with Risk Management Framework. Several Risk Management Committees oversee compliance with the specific Risk Management policies and procedures set out in the Corporate Policy Directory.

The main credit exposures are with intra-group entities. Indeed the legacy-BNY client deposits are re-invested mainly with the London Branch of BNYM for EUR and GBP and the Cayman Branch of BNYM for USD. Both entities are branches of BNYM.

Most of the assets re-invested intra-group are invested with short tenor of maximum one year.

The remaining exposures consist in Nostros with external cash correspondents (our sub-custodians), limited placement/loan to external parties (top-tier banks) and overdraft loans to our clients.

Custody client overdrafts are monitored, tracked and escalated on an intraday and next-day basis. The overdraft management is based on the overdraft threshold, the client's borrower rating, the possible pledge on assets in custody and the nature of the origin of the overdraft.

Daily management of securities lending and third party balances (Nostro or placements) are outsourced to the relevant risk sector in the parent company; reporting on trends and volumes is done in the SA/NV (in Brussels).

4.1.4 Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements

Concentration risk is the risk of loss not only associated with outsized credit granted to individual or interrelated borrowers but also to any significant interrelated risk exposures that may produce large losses or may threaten the soundness of the company, i.e. concentrations in market, credit, business risks and between risk categories.

Concentration risk is one of the specific risks required to be assessed as part of the Pillar 2 framework set out in the directive 2006/48/EC (Capital Requirements Directive) Aspects of Concentration risk is dealt under the Articles 123,124 Annex V, Annex XI of the CRD. The working definition of risk concentration is defined as – exposures that may arise within or across different risk categories throughout an institution with the potential to produce: (1) losses large enough to threaten the institution's health or ability to maintain its core operations; or (ii) a material change in an institution's risk profile.

The risk can arise from concentrations within credit, market, liquidity, and operations as well as interrelated concentrations between different areas. CEBS recognizes the benefits of diversification and the relationship with concentration risk (inter and intra).The focus of the current guideline remains solely on concentration risk and diversification is dealt in a separate report on the supervisory approaches to diversification benefits arising from economic capital models.

As part of the development in implementing the CRD GL 31 requirements, a concentration risk policy is currently under development at the group level and will be adopted at the regional level as relevant. It will clearly define the concentration risk tolerance and limits for both intra and inter risk concentration. It will be embedded in the risk management framework and be part of the firm's risk appetite.

As required by the guidelines, holistic approach to concentration risk management is being developed to identify and assess all risk concentrations, as a single risk event may result in losses or negative impact in more than one risk category. Once the concentration risk policy and formal limit structures have been established, regular management reporting of concentration risk will be introduced at various levels as part of our internal concentration risk adequacy assessment

Credit Concentration

The Bank's risk of credit concentrations is controlled and managed according to client/counterparty as opposed to geographical region and or by industry. The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are valued at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Geographical Breakdown of exposures by counterpart (in € million)	Credit institutions	Corporates	Central Government	Non Credit Institutions	Total
AUSTRIA	248.2	0.0	0.0	0.0	248.2
BELGIUM	1,142.8	0.0	303.3	0.3	1,446.4
BRAZIL	134.1	0.0	0.0	0.0	134.1
SWITZERLAND	148.7	0.0	0.0	0.0	148.7
GERMANY	2,793.3	53.7	48.8	9.8	2,905.7
DENMARK	263.5	0.0	0.0	0.6	264.1
FRANCE	288.0	0.0	0.0	0.0	288.0
UNITED KINGDOM	19,391.3	1.0	0.2	9.6	19,402.0
HONG KONG	1,435.8	0.0	0.0	0.0	1,435.8
INDIA	118.4	0.0	0.0	0.0	118.4
JAPAN	1,126.2	0.0	0.0	0.0	1,126.2
CAYMAN ISLANDS	9,081.6	0.0	0.0	0.1	9,081.7
LUXEMBOURG	326.3	0.0	0.0	52.9	379.2
MEXICO	167.8	0.0	0.0	0.0	167.8
NETHERLANDS	89.5	0.2	0.0	11.1	100.9
NORWAY	215.9	0.0	0.0	0.0	215.9
SINGAPORE	350.9	0.0	0.0	0.0	350.9
TAIWAN	168.1	0.0	0.0	0.0	168.1
UNITED STATES	123.5	0.0	0.0	15.9	139.4
OTHER	488.3	0.0	9.6	6.8	504.7
TOTAL	38,102.3	54.9	361.9	107.3	38,626.3

As can be seen from the above table SA/NV's credit exposures are largely concentrated in the United Kingdom which accounts for more than 50 % of its total credit exposure. Most of these exposures are placed with the BNYM London Branch and does not pose any credit risk from the point of default or non-recovery, outside of 'Group risk'. The CBFA has expressed concerns on this concentration to Group and SA/NV are looking to address this issue.

Several methodologies are in the process of being investigated to model and/or stress test capital calculation for credit concentration risk. Both the Gordy and Lütkebohmert paper on Concentration Risk and emerging industry best practice will inform the decision. Concentration risk modelling is expected to be undertaken during the second half of 2011.

4.1.5 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

In most cases, credit granted to clients are credits issued in the framework of their operations. When a right of pledge exists, in favor of BNYMSA, it is to be found on the assets under custody. These, in most cases, largely exceed the cash amount lent to the client. Hedge funds, however, have special control, procedures in place.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, BNYMSA does not occupy repossessed properties for business use.

4.1.6 Credit quality by class of financial assets

The credit quality of financial assets is managed by BNYMSA using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts represent the credit risk exposures as calculated according to regulatory rules. There is no past due financial assets recognized for BNYMSA in 2010 and 2009.

Internal BNYM rating	Moody's equivalent grades	Total 2010 € million
2	Aaa	55,688.8
3-6	Aa1 - A3	1,031.8
7-8	Baa1 - Baa2	166.2
9	Baa3	0.0
10	Ba1	8.5
11	Ba2 – Ba3	0.0
12-13	B1 – B2	0.0
14	B3	0.0
15-18	Caa – C	0.0
18	D	0.0
		<u><u>56,895.3</u></u>

It is BNYMSA's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class.

There is no past due financial assets accounted for BNYMSA in 2010 and 2009.

4.2 Market Risk

4.2.1 Definition

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

The three types of exposure categories:

- Equity risk or the price risk associated with a trading book. SA/NV does not have a trading book that is not involved in debt, equity or commodities trading. It is currently not exposed to this risk and this is not expected to change in the near future.
- Interest rate risk is the risk associated with changes in interest rates that impacts net interest income from interest-earning assets and interest-paying liabilities. This is discussed in section 4.2.4.
- Currency risk or the risk that a change in foreign exchange rates will create adverse impacts to the financial performance. SA/NV is naturally exposed to exchange risk as it operates in more than 100 markets and in the majority of the world's currencies, which result in long and short FX positions. In order to mitigate this, foreign exchange positions on the balance sheet are closed daily, while those generated by the translation of the P&L in EUR are closed monthly. It should be noted SA/NV enters into currency swaps to optimize its treasury management. These do not create market risk issues and the interest risk aspect of the transactions is limited as the deals are mostly overnight.

4.2.2 Market risk Management

The Market risk policy is determined and revised by BNYM Risk Policy Sector in conjunction with the Business line. The risk measurement is in accordance with BNYM Risk Policy Manual.

The SA/NV Market Risk is assessed and monitored by the Control and Risk functions under the direction of the Executive Director responsible for Control and Risk of SA/NV. In addition, Market Risk assessment and monitoring are conducted independently by BNYM Risk Policy function.

Market risks are reported during the monthly RMC. Occasionally, securities may be held by SA/NV as a result of operational errors during failed trades on stock lending. These amounts have historically been low. Upon creation of the position, it is immediately incorporated into risk management tools.

The Board has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

4.2.3 Market risk appetite

Given the nature of the remaining market risk in BNYMSA (FX positions), the Management Committee estimates that the regulatory capital allocation under Pillar I computation is a good estimate of Economic Capital for Market Risks.

4.3 Operational Risk

4.3.1 Definition

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events (including legal risk but excluding strategic and reputational risk). It also includes regulatory action and direct reputational damages to the entity.

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 business disruption due to systems failures, execution, delivery and process management or other events. Operational Risk can also arise from

potential legal or regulatory actions because of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations, these being sub-classified as Compliance Risk.

In year-ended 31 December 2010, SA/NV recorded €223K in operational losses, mainly through execution delivery and process management errors. This low net loss is due largely to the offset of one significant gain of \$1.3m which resulted from exchange rates that moved in BNYM's favour but which could have just as easily moved against BNYM and resulted in a large loss.

4.3.2 Operational Risk Management

Framework

The Operational Risk Management Framework in BNYM is designed to ensure that Business Groups identify and document material business risks. Assessing the effectiveness of control design and ensuring that controls gaps are closed;

- Develop and implement policies and procedures appropriate for the business that conform to the guidelines and principles established by Corporate Operational Risk Management;
- Elevating, reporting and investigating errors, losses and near misses, identifying the root causes and implementing corrective actions;
- Reviewing key risk indicators for coverage and effectiveness, identifying root causes for red 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 the company is being compensated appropriately for the assumption of risk;
- Reviewing the impact on inherent risks and controls of changes in business processes such as reorganizations, new products or processes, system conversions and acquisitions, etc;
- Ensuring that processes, risks, and controls are continually reassessed for appropriateness and completeness, monitoring, and reporting risks

In BNYM, business segments are accountable and responsible for maintaining an effective system of internal controls, commensurate with their risk profiles and in accordance with their risk profiles and in accordance with BNYM policies and procedures.

Within SA/NV, the Board monitors Operational Risks and the appropriateness of controls through business segment representation on the Board as well as independent reporting from operational risk managers. The RMC is responsible for the oversight of operational risk as delegated by the Board, and an independent operational risk team supports this function in ensuring that business segments maintain sufficient controls as required. The RMC is also responsible for reviewing and implementing Group risk management policies and tools within the SA/NV which have been developed by the BNYM Operational Risk Management group for assessing, measuring, monitoring and managing operation risk for BNYM,

Operational Risk reporting

Operational Risks are identified and documented via Risk and Control Self Assessments (RCSAs) that each business unit maintains. It is the goal of the company that material risks are monitored by appropriate Key Risk Indicators (KRIs). Periodic and consistent monitoring of KRIs that have been developed for key business processes ensures that any deviations from predetermined Standards can be identified. Once identified,

these issues must be brought to the attention of the appropriate level of Business management and Business Chief Risk Officers or designees to determine the course of action that should be taken to appropriately address the issue.

For each indicator a red, amber or green standard is agreed upon. This agreement is a collaborative process between the business unit and Operational Risk Management. Where a metric turns red, the line of business is responsible for applying a narrative explaining the root cause, impact and actions to address the issue. Key Risk Indicators (KRIs) are reviewed on a monthly basis and challenged where the narrative and or action plan requires further clarification. Operational Risk Management escalates through the governance structure (this includes but is not limited to SA/NV EC,, EMEA Asset Servicing Executive Committee and EMEA Risk and Compliance Committee) if a significant adverse situation occurs. Revalidation of KRIs and standards are conducted periodically (as per Corporate Policy) to ensure that each KRI and its standard is appropriate.

A report is submitted to the RMC monthly by Business Operational Risk Management covering but not limited to:

- KRIs and RCSAs
- Subsidiary reports (BAS and FSKAG)
- High Level Assessments
- BAC deals approved
- Significant projects
- Ad hoc matters requiring attention

This report will be updated in 2011 to incorporate monitoring of risk appetite metrics, further to the approval of the SA/NV Risk Appetite Statement.

4.3.3 Risk Framework

BNYMSA is focused on controls and compliance with respect to its businesses and invests heavily in first class control processes, business acceptance procedures, and compliance and ethics training and enforcement. different tools are used in the identification and assessment of BNYMSA operational risks: Key Risk Indicators (KRI), Other Risk Assessment Tools and Processes, High Level Risk assessment (HLRA), Risk and Control Self Assessment, Significant Business Process Changes/New Products and the Operational Risk Event Database.

Key Risk Indicators are analyzed each month to monitor the extent to which the probability of the high inherent risks materializing is changing and to ensure that appropriate actions are being taken.

KRIs have been developed to capture the operational risk causal categories of people, process, technology and external events together with regulatory / legal issues. These are subject to a continuous process of refinement, with new indicators being developed and thresholds being amended as the inherent risk and residual risk changes. Changes to both indicators and thresholds require the approval from the independent risk management function.

Other Risk Assessment Tools and Processes are procedures to ensure that the standard tools for the identification assessment and monitoring of operational risk has been consistently applied throughout the BNYMSA operations, to monitor the output and to ensure that controls continue to be adequate and effective. These include:

- Loss data analysis and root cause analysis;

- Risk and Control Self-Assessments;
- High Level Risk Assessments;
- Business Change Risk Assessments;
- BNYMSA risk Management Committee Oversight;
- EMEA Risk Committee;
- Compliance Monitoring;
- Risk Focussed Internal Audit Reviews;
- SAS70 Type II;
- Regulatory Examinations.

High Level Risk assessment (HLRA): a qualitative scale has been determined by Operational Risk Managers and approved by senior management, which requires that the level of inherent risk, quality of controls, residual risk and direction of risk are assessed for the risk types underpinning operational risk. This assessment is based on the outputs of the KRIs, loss reporting, RCSAs together with other change related and emerging issues.

The HLRA and a combined risk assessment for EMEA Asset Servicing and Global Operations are completed monthly.

The **Risk & Control Self Assessment** is a more granular process orientated tool and it assesses risk in the same manner as the HLRA.

Significant Business Process Changes/New Products: sector risk will consider materiality of the change to determine if a risk assessment is required. Consequently, significant process changes and new product developments require the Sector Operational Risk Managers to ensure that risk assessments have been completed and to determine whether the risk profile warrants further escalation to the various governance committees.

Operational Risk Event Database: all losses / gains that have the potential to be above USD 50,000 must be escalated to senior line of business management and risk management in a timely fashion. Dependent on the value of the loss, the escalation also includes senior finance management and legal counsel.

4.4 Liquidity Risk

4.4.1 Definition

Liquidity risk is the risk that a firm, although balance sheet solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms. The analysis below was conducted in 2010 for year-ended 31 December 2009 but is still valid and relevant. The SA/NV is currently in discussion with its regulator to establish a set of Liquidity stress tests based on a revised Liquidity Policy. This process is being overseen by the Belgium ALCO. SA/NV will also shortly have in place a Liquid Asset Buffer shortly which will be built on progressively through 2011.

4.4.2 Liquidity Risk Management

To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. BNYMSA has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

BNYMSA invests mostly in cash deposits with BNYM or its subcustodians. Investments are all less than a year, ensuring a reduced liquidity risk. In addition, BNYMSA maintains a statutory deposit with the Central Banks of the countries it is active in. Finally though its BAS subsidiary, liquidity is invested into bond securities that are very liquid on the German market.

BNYMSA stresses the importance of current operational accounts as a source of funds. BNYMSA is not actively acting on the market to get funding. The funds deposited are a need for the securities servicing activities and need to be invested to generate a margin. The source of funding is to be considered as a retail portfolio and presents, therefore, a certain statistical stability that allows extending the maturity of part of the cash investments up to a year.

BNYMSA performs some treasury/liquidity related activities. These principally consist in managing the liquidity of the Global Custody, Corporate trust and Global Collateral Management client base. Clients mainly deposit funds on demand accounts of BNYMSA. In other instances, clients enter into time deposits directly with BNYMSA to benefit from better interest rate conditions. The funds collected through the branches or deposited directly with BNYMSA are invested with minimal liquidity risks in inter-bank market and with other BNY Mellon entities.

The funding of BNYMSA is, because of the underlying business, short-term from a legal perspective. However, like in the retail business, this funding has a statistical stability induced by the imperfection of the markets and the performance of the cash management function of the clients.

Liquidity management is executed on a day-to-day basis within the BNYMSA's Treasury Department, which reports locally to the CFO.

All future cash flows are closely monitored and projected through the accounting system. These are updated as soon as an operation involving external cash movements is entered. Some of BNYMSA exposures are covered by Treasury by means of Money Market operations and Foreign Exchange swaps, as mentioned before.

The client cash deposits of the BNYMSA branches follow a different flow than the one in Belgium. The total client deposits are deposited with the London Branch, and then reinvested with London, US and Cayman Branch. This reinvestment is done through the use of current accounts. In conclusion, there is a matching of the liability maturity structure and the asset maturity structure.

Liquidity risk reporting is included in the monthly BNYMSA Risk Management Committee information pack. Liquidity is reviewed at the EMEA level by the EMEA ALCO. Any significant liquidity issue will be escalated to appropriate senior management immediately.

BNY Mellon liquidity risk appetite is defined in the BNY Mellon liquidity policy. BNY Mellon's liquidity risk profile is regularly assessed against a peer group and BNY Mellon's ALCO have set liquidity limits to ensure the company maintains strong liquidity at all times.

These include a range of liquidity ratios such as deposits/total assets, liquid assets/total assets, gross loans/total deposits and unfunded commitments/equity. Additionally, several liquidity measures such as reliance on overnight sources of funding and collateral available for pledging are also monitored.

To ensure BNYMSA complies with BNY Mellon and local regulatory liquidity risk management requirements, a specific BNYMSA liquidity risk management policy has been set up.

4.4.2.1 Overview

BNYMSA seeks to maintain a very liquid balance sheet at all times. As tabled below, main bank's liabilities are composed of banks or clients' deposits, which comprise a large number of individual customers and are

directly linked with the bank core activities (liquidities voluntarily retained by the clients inner cash accounts awaiting investment opportunities or cash resulting from failed operations).

As at 31 December 2010	Less than 1 month	Between 1 month and 3 months	Over 3 months & Undefined	Total
	<i>In € '000</i>	<i>In € '000</i>	<i>In € '000</i>	<i>In € '000</i>
ASSETS				
Cash and cash balances with central banks	349,153	0	0	349,153
Derivatives	0	0	4,429	4,429
Available for sale financial assets	0	1,006,319	684,892	1,691,210
Loans and receivables	28,520,391	4,617,622	3,355,206	36,493,219
Accrued income from financial instruments	199	0	55,510	55,709
Property, Plant and Equipment	0	0	12,382	12,382
Goodwill	0	0	522,908	522,908
Other intangible assets	0	0	78,677	78,677
Tax assets	0	0	63,866	63,866
Prepaid charges	0	0	3,845	3,845
Accrued income	3,147	0	30,179	33,327
Other advances	30,250	0	19,801	50,051
	28,903,141	5,623,941	4,831,695	39,358,777
As at 31 December 2010	Less than 1 month	Between 1 month and 3 months	Over 3 months & Undefined	Total
	<i>In € '000</i>	<i>In € '000</i>	<i>In € '000</i>	<i>In € '000</i>
LIABILITIES				
Derivatives	0	0	90,361	90,361
Deposits	31,573,081	3,300	4,468,639	36,045,020
Subordinated liabilities	0	0	370,500	370,500
Other financial liabilities	905,417	0	0	905,417
Accrued expenses on financial instruments	0	0	15,000	15,000
Tax liabilities	0	0	102,937	102,937
Employee benefits	0	0	6,955	6,955
Provisions	0	0	3,493	3,493
Social security charges	9,207	0	739	9,946
Accrued charges	0	0	52,616	52,616
Other debts	81,838	0	9,016	90,854
Miscellaneous other liabilities	0	0	2,836	2,836
	32,569,543	3,300	5,123,091	37,695,934

Short term placements offset those amounts. Placements are deposited with high quality financial institutions and BNYM Group Entities. A significant portion of placements matures each day, and most of the balances mature within one month. In order to invest liquidities with a term higher than 3 months, an approval of New York Treasury Department is required. The excesses in GBP liquidity that the bank doesn't intend to use for their day-to-day operations are left on an interest bearing account with The Bank of New York Mellon in London in order to be invested in higher maturity investments. Something similar is done with the USD position. The operating account with BNYM New York is swept to BNYM Cayman for overnight placements. This sweep allows payment of interest on the balance.

The Liquidity Support team calculates daily estimated cash position available or required on the bank's cash balances (between several systems the bank uses the projection engine included into IMMS). Estimated cash

positions for a specific currency are provided to the Brussels trading desk, allowing the traders to perform an effective liquidity management. The day after, the accuracy of the estimate is controlled by comparing the actual and the anticipated positions.

Off-balance sheet exposures are captured within the liquidity risk framework.

In the case of the BNYMSA branches, the liabilities are composed of funding it receives principally from its operational securities servicing relationships. The branches do not generally seek to raise funds in the market. Excess cash is invested with the London Branch of BNYMSA.

While overdrafts occur on specific clients' accounts, these are mainly of a technical nature, have a short tenor, and do not materially impact the overall liquidity position of the branches. Consistent with the Company's strategy and business mix, BNYMSA branches do not have capital markets or corporate / commercial lending activities to fund. There is also no retail lending.

The liquidity risk associated with the Securities Lending activity is related to the collateral indemnification that BNYMSA Amsterdam Branch grants to a number of clients. If a Securities Lending counterparty is not able to return the securities on loan and the collateral is insufficient to repurchase the securities on loan, BNYMSA Amsterdam Branch is liable – and thus needs to fund - the difference. Daily collateral management – including additional margin calls, when required - is in place to prevent a collateral shortfall.

4.4.3 Risk framework

The liquidity position of an institution can be assessed by comparing the potential available liquidity with the potential required liquidity. Both internal and CBFA/NBB stress test scenarios are used to perform this exercise.

Since March 31 2009, forms 90.31 & 90.32 are submitted to the CBFA/NBB. Reports 90.31 and 90.32 show the contractual provided cash in and outflows under normal circumstances, the total liquid financial assets before application of 'haircuts' and the total of credit line, guarantees and deposits on the reporting date. After this, the CBFA will apply their specific scenarios, haircuts and assumptions on the reported data to determine the corresponding liquidity position of the institution.

In accordance with the Basel Committee principles for Sound Liquidity Risk Management and Supervision and Circular CBFA_2009_18 dated 8 may 2009, the executive committee of BNYMSA has issued a report on the management of liquidity (June 2009 and June 2010).

In that framework BNYMSA has implemented a strong liquidity risk control framework and is conducting stress tests to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with a bank's established liquidity risk tolerance.

As custodian BNYMSA attracts more funding than it can deploy through a limited and short term credit activity. BNYMSA uses high quality placements to generate a spread over its funding liabilities. BNYMSA only invests in short term positions (less than one year) with high quality financial institutions and mainly with BNYM Group entities.

4.5 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

For BNYMSA, the duration of the liabilities is short term. In 2009, BNYMSA increased the duration of its assets. To increase its net interest income, it started to extend the maturity of its investments form under a

month, spreading it over different maturities between one month and one year. This is done for its USD, EUR and GBP position. These investments are made with BNY Mellon. As this will result in a stronger capital position in the long run without increasing the credit risk, this strategy will continue to be applied.

As a result of this change, the interest rate risk increased within BNYMSA, however, the majority of the investment remaining short term the risk remains low.

Since the BNYMSA exposure to market risk is very low, no analysis is made on the sensitivity to a reasonable possible change in interest rates.

4.6 Other Risks

4.6.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The table below indicates the currencies to which BNYMSA had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Euro, with all other variables held constant, on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Euro would have resulted in an equivalent but opposite impact.

Currency	Variation	Conversion rate at closing	Effect on profit before tax	Effect on equity	Conversion rate at closing	Effect on profit before tax	Effect on equity
		2010	2010	2010	2009	2009	2009
		€ million		€ million		€ million	
Scenario 1	1%						
USD	0.0134	1.3373	3.7	0.0	1.4348	3.0	0.0
GBP	0.0155	1.5545	0.5	0.0	1.6154	0.0	0.0
Scenario 2	Maximum variation over one year (2008)						
USD	0.3564	1.3373	99.4	0.0	1.4348	80.2	0.0
GBP	0.2452	1.5545	7.6	0.0	1.6154	0.2	0.0

4.6.2 Banking book exposures in equities

Interest rate risk is the risk (variability in value) borne by an interest-bearing asset, such as a loan or a bond, due to variability of interest rates. Interest rate risk in the banking book primarily arises from a mismatch of asset and liability re-pricing dates.

4.6.2.1 Risk framework

Gaps reports, sorted by type of interest product and maturity, are sent each week by the Headquarters to the treasury department in Brussels. Those reports contain estimations of potential gains or losses on current balances due to changes in the yield curve.

The risk however is very limited as most of the placements are very short term. The interest rate risk embedded in the BNYMSA balance sheet is considered by the Executive committee not to be a major source of risk to BNYMSA.

4.6.2.2 Stress testing

Stress tests are performed in order to better evaluate the potential impact of changes in the Short Term Yield Curve. Because the maturity mismatch is at the short term of the maturity curve – and the strategy is not to change this – it is considered that changes in the shape of the yield curve will not have material impact. The stress tests consequently consider the shocks in the curves.

As from March 31, 2008, the CBFA is testing both Capital and Income sensitivity of Interest Rate movements:

- **Capital sensitivity:** The institutions need to provide the CBFA information concerning the economic value of the banking book and the effects of an interest rate shock on that value. This will be calculated using own internal models. However, the interest rate scenarios and strict assumptions for behavioral accounts like saving and sight deposits are provided by the CBFA.
- **Income sensitivity:** The institutions need to provide the CBFA information concerning the expected changes in the interest rate results caused by an interest rate shock. Again, the interest rate scenarios and hypotheses for behavioral accounts are provided by the CBFA.

4.6.3 Securitization

The securitization risk is the risk of an (unexpected) loss on securitization business. Securitization is a product and like other products (mortgages, loans ...) has components of credit risk, market risk, operational risk and business risk.

BNYMSA never enters into such transactions.

5 Glossary of terms

The following terms are used in this paper:

- **AIMS:** Asset Information Management System – System for credit lines setup and maintenance
- **ALCO:** Asset and Liability Committee
- **CBFA:** Belgian Banking Regulator
- **Exposure:** A claim, contingent claim or position which carries a risk of financial loss.
- **IMMS:** International Money Management System - BNYM's accounting system
- **Internal Capital Adequacy Assessment Process (ICAAP):** The assessment of the levels of capital that the bank needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
- **NBB:** National Bank of Belgium

- **Securitization:** A transaction or scheme whereby the credit risk associated with an exposure, or pool of exposures, is tranching and where payments to investors in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures.
- **Value at Risk (VaR):** is a widely used risk measure of the risk of loss on a specific portfolio of financial assets. For a given portfolio, probability and time horizon, VaR is defined as a threshold value such that the probability that the mark-to-market loss on the portfolio over the given time horizon exceeds this value (assuming normal markets and no trading in the portfolio) is the given probability level.

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