BNY Mellon Capital Markets EMEA Limited

PILLAR 3 DISCLOSURE

DECEMBER 31, 2015

BNY MELLON | Invested

Pillar 3 Disclosure Report

December 31, 2015

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1 Introduction

1.1 Disclosure policy

This document comprises the BNY Mellon Capital Markets EMEA Limited (or CaML) Pillar 3 disclosures on capital and risk management at 31 December 2015. These Pillar 3 disclosures are published in accordance with the requirements of EU 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 the elements of the group covered by the Basel II framework. Pending implementation of the Basel III framework by The Bank of New York Mellon Corporation (BNYMC), there is currently no comparable disclosure provided on a consolidated basis by CaML's parent undertaking. As such, these disclosures have been prepared for BNY Mellon Capital Markets EMEA Limited (CaML).

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 forward looking record or opinion of the business.

Unless otherwise indicated, 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 CRD IV 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, operational risk and capital resources requirements
- **Pillar 2 – Supervisory review process:** requires firms to undertake an internal capital adequacy assessment process (ICAAP) to determine whether additional capital needs to be held 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, capital resources and analysis of its credit risk exposures

Wherever possible and relevant, CaML's Board of Directors (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

Not all of the above risk and exposure types are relevant to CaML. These Pillar 3 disclosures only focus on those risk and exposure types relevant to CaML.

CaML includes both quantitative and qualitative disclosures to show the relevant information and describe its approach to capital management, its capital resources and 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 the 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 is not regarded as material. The assessment of materiality considers whether the omission or misstatement of information could change or influence the decisions 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 its public disclosure would undermine 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 this is to be classified as secret or confidential.

CaML undertakes no obligation to revise or update any forward looking or other statements 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. CaML will reassess the need to publish some or all of the disclosures more frequently 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 will be published on The Bank of New York Mellon group website (www.bnymellon.com), under the section entitled “Investor relations, financial reports, other regulatory filings”.

1.6 Board approval

These disclosures were approved for publication by CaML's Board of Directors on 30 August 2016. 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 Post year-end events

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

2 Key Metrics

Table 1: Key Metrics - The following risk metrics reflect CaML's risk profile.

Metric	2015		2014	
	£m	Ratio	£m	Ratio
Common equity tier 1 capital	29	136.9%	27	285.6%
Total tier 1 capital	29	136.9%	27	285.6%
Total capital	29	136.9%	27	285.6%
Risk weighted assets	21	-	9	-

3 Scope of Application

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 2015, BNY Mellon had $28.9 trillion in assets under custody and/or administration, and $1.6 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

3.1 Company description

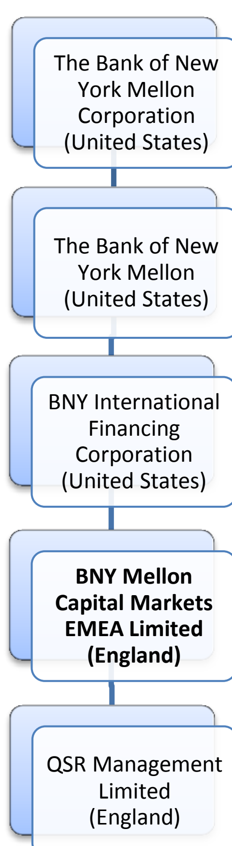
CaML is a private limited company incorporated in the UK and is authorised and regulated by the Financial Conduct Authority (FCA). It is a wholly-owned subsidiary of BNY International Financing Corporation (BNYIFC), a holding company with investments in banking and non-banking entities. BNYIFC is a wholly-owned US-regulated subsidiary of The Bank of New York Mellon, the main banking entity of BNY Mellon.

In 2014, QSR Management Ltd became a 100% owned subsidiary of CaML by means of a share for share exchange. The rationale for the reorganisation being that the combined capital of the two entities will support CaML's future development. Both CaML and QSR Management Ltd remain under the common control of BNYIFC following the reorganisation.

In the UK, CaML operates as a broker-dealer operating under a 'restricted' Full Scope licence from the FCA (€730k Full Scope Firm). As part of this licence, CaML will not take positions (proprietary trading) or 'make markets', it primarily targets cross-selling opportunities within the BNY Mellon Group (primarily customers of Asset Servicing, Alternative Investment Services and Corporate Trust division) and other third party clients.

The corporate structure of CaML is illustrated in Figure 1.

Figure 1: CaML corporate structure



3.2 Core business lines

CaML's core business is providing global fixed income securities brokerage services (predominantly on a principal basis) for UK, EU and US listed equities and exchange traded funds (ETFs) (primarily trading on an agency basis). Other core business includes securities underwriting services.

3.2.1 Fixed income

CaML offers agency and principal trading brokerage services across fixed income securities, collaborating with BNYM LLC which holds an inventory of US Treasuries. CaML focusses on internal marketing and captures cross selling opportunities across the BNY Mellon franchise, expanding relationships and services, especially from the newly formed Markets division.

3.2.2 Equities

CaML is an active broke in equities/securities (both International and US) and Exchange Traded Funds (ETF). Whilst its equities offering is primarily agency based, the business also executes on a principal basis where required.

CaML's equities and fixed income desks also service external clients who wish to "outsource" or appoint a single broker for all their execution needs. If required, CaML can collaborate with other BNY Mellon Broker Dealers to offer a global service.

3.2.3 Underwriting

CaML acts as co-managing underwriter for selected new issuances of securities and may collaborate with BNYM LLC, which offers capital markets services, including acting as lead manager and distributor in the US. CaML attracts these deals through existing BNY Mellon client relationships particularly across the Markets business and Corporate Trust divisions.

4 Own Funds

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

Table 2: Own Funds, Full Reconciliation

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

31 December 2015	Published Audited Financial Statements	Adjustments due to Consolidation Scope	Adjustments due to Transitional Provisions	Regulatory Prudential Adjustments	Regulatory Own Funds
Common Equity Tier 1	£'000	£'000	£'000	£'000	£'000
Capital Instruments	30,273	0	0	0	30,273
Retained Earnings	4,479	0	0	0	4,479
Other comprehensive income	0	0	0	0	0
Reserves	28	0	0	0	28
Minority Interest	0	0	0	0	0
Other adjustments and assets deducted	0	0	0	-5,756	-5,756
Total CET1	34,780	0	0	-5,756	29,024
Additional Tier 1 Capital					
Capital Instruments	0	0	0	0	0

Instruments issued by subsidiaries	0	0	0	0	0
Other assets deducted	0	0	0	0	0
Other prudential deductions	0	0	0	0	0
Other adjustments and assets deducted	0	0	0	0	0
Total AT1	0	0	0	0	0
Total Tier 1 (CET1 + AT1)	34,780	0	0	-5,756	29,024
Tier 2 Capital					
Capital Instruments	0	0	0	0	0
Subordinated loans	0	0	0	0	0
Instruments issued by subsidiaries	0	0	0	0	0
SA - Credit Risk Adjustments	0	0	0	0	0
Other assets deducted	0	0	0	0	0
Other adjustments and assets deducted	0	0	0	0	0
Total Tier 2 Capital	0	0	0	0	0
Total Own Funds	34,780	0	0	-5,756	29,024

CaML'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 3: Composition of regulatory capital

This table shows the composition of CaML's regulatory capital including all regulatory adjustments.

Own Funds	31-Dec-15	31-Dec-14
Common Equity Tier 1 (CET1)	£'000	£'000
Capital Instruments	30,273	30,273
Retained Earnings	4,479	1,781
Other comprehensive income	0	0
Reserves and others	28	23
CET1 Adjustments	-5,756	-5,545
Total CET1	29,024	26,532
Additional Tier 1 Capital (AT1)		
Capital Instruments	0	0
Others	0	0
AT1 Adjustments	0	0
Total AT1	0	0
Total Tier 1 (CET1 + AT1)	29,024	26,532

Tier 2 Capital (T2)		
Capital Instruments and subordinated loans	0	0
Others	0	0
T2 Adjustments	0	0
Total Tier 2 Capital	0	0
Total Own Funds	29,024	26,532

See below for detailed composition of regulatory capital according to EU Reg. 1423/2013

Transitional own funds disclosure at 31 December 2015

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	£’000	£’000
Capital instruments and the related share premium accounts, of which:	30,273	
Ordinary shares	30,273	
Retained earnings	4,893	
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	28	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**35,194**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-5,756	
Losses for the current financial year	-414	
Year-end non eligible earning adjustments	0	
Total regulatory adjustments to Common equity Tier 1 (CET1)	**-6,170**	
Common Equity Tier 1 (CET1) capital	**29,024**	
Additional Tier 1 (AT1) capital: Instruments		
Additional Tier 1 (AT1) capital before regulatory adjustments	**0**	
Additional Tier 1 (ATI) capital: regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 (AT1) capital	**0**	
Additional Tier 1 (AT1) capital	**0**	

Tier 1 capital (T1 = CET1 + AT1)	**29,024**
Tier 2 (T2) capital: Instruments and provisions	
Tier 2 (T2) capital before regulatory adjustments	**0**
Tier 2 (T2) capital: regulatory adjustments	
Total regulatory adjustments to Tier 2 (T2) capital	**0**
Tier 2 (T2) capital	**0**
Total capital (TC = T1 + T2)	**29,024**
Total risk weighted assets	**21,201**
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of risk weighted assets)	136.9%
Tier 1 (as a percentage of risk weighted assets)	136.9%
Total capital (as a percentage of risk weighted assets)	136.9%
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)	5,756
Applicable caps on the inclusion of provisions in Tier 2	
Capital Instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	

Table 4: Own Funds, Full Reconciliation

Capital instruments main features[1] at 31 December 2015	Ordinary Shares issue denominated in GBP	Ordinary Shares issue denominated in USD
Issuer	Issuer BNY Mellon Capital Markets EMEA Limited	Issuer BNY Mellon Capital Markets EMEA Limited
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not Applicable	Not Applicable
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	Common Equity Tier 1
Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo	Solo
Instrument type	Ordinary Shares	Ordinary Shares
Amount recognised in regulatory capital	£20 million	£10 million
Nominal amount of instrument	GBP 1	USD 1

Issue price	GBP 1	USD 1
Redemption price	Not Applicable	Not Applicable
Accounting classification	Shareholders' equity	Shareholders' equity
Original date of issuance	7-May-1999	20-March-2000
Perpetual or dated	No Maturity	No Maturity
Issuer call subject to prior supervisory approval	No	No
Coupons / dividends		
Fixed or floating dividend/coupon	Not Applicable	Not Applicable
Coupon rate and any related index	Not Applicable	Not Applicable
Existence of a dividend stopper	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
Existence of step up or other incentive to redeem	No	No
Write-down features	No	No
Non-compliant transitioned features	No	No

[1] This table is based on Annex II of ITS Regulation (EU) No. 1423/2013, Several non-applicable lines have been omitted.

5 Capital Requirements

CaML produces an ICAAP document at least annually to present all relevant information necessary for the CaML senior management to make an informed decision on the appropriate level of capital to be held against the risks that the company is exposed to using a three year forecast.

The ICAAP document for CaML is prepared with input from Finance, Risk, Treasury and the Markets Business and is subject to Executive Committee and Board approval and submitted to the Financial Regulator.

CaML's CRD IV minimum capital requirements, regulatory capital requirements and internal assessment are all compared in the ICAAP document. CaML's CRD IV minimum requirements are outlined in the following section.

CaML's ICAAP aims to ensure that an appropriate amount of capital is held to support its business model, allowing for growth and orderly contraction over the life cycle of the business, given a range of severe yet plausible stress scenarios. Potential capital shortfalls are identified over a 3 year period and the ICAAP adjusted accordingly. The ICAAP is reflective of CaML'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.

Incorporating the projected earnings based on its business plan, CaML generates a 3 year forecast which forms the foundation for financial modelling and stress testing used as part of the ICAAP.

The ICAAP effectively incorporates a view of CaML'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.

5.1 Calculating Pillar 1 capital requirements

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

credit exposures are consistent across the industry. 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 5: Capital requirements overview

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

Type of Risk	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
	£000	£000	£000	£000
Credit Risk SA*	17,576	5,845	1,406	468
Counterparty Credit Risk SA*	0	0	0	0
Securitisation Risk in banking book SA*	0	0	0	0
Settlement Risk	605	108	48	9
Market Risk SA*	151	244	12	20
of which: Foreign Exchange Position Risk	151	244	12	20
Operational Risk	2,869	3,093	230	247
of which: Basic Indicator Approach	0	0	0	0
of which: Standardised Approach	2,964	3,093	237	247
of which: Additional Amount due to fixed overheads	0	0	0	0
Credit Valuation Adjustment - Standardised method	0	0	0	0
Related to Large Exposure in Trading Book	0	0	0	0
Other Risk	0	0	0	0
Total	**21,201**	**9,291**	**1,696**	**743**
Total Capital			**29,024**	**26,532**
Surplus Capital			**27,328**	**25,789**

* SA = Standardised Approach

CaML meets or exceeds the minimum capital ratios required to maintain a well-capitalised status and to ensure compliance with regulatory requirements at all times. CaML 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.

6 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 the 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. Therefore CaML and BNY Mellon Corporation as a whole are committed to maintaining a strong balance sheet, and as a strategic position, assumes less risk than many other financial services institutions.

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, which applies to CaML and 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

6.1 Risk objectives

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

- The Board recognises that in defining a risk appetite it must consider the views of a number of different stakeholders while accounting for business strategy and risk profile
- The Board views embedding the risk appetite into the business strategy as essential
- The Board recognises that it cannot mitigate all risks. The risk framework includes 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 function effectively
- 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 CaML is exposed.

6.2 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.

6.2.1 Board of Directors

The main duty and responsibility of the Board is to define the strategy and supervise the management of CaML. Whilst acting autonomously and in accordance with their legal and regulatory requirements, the Board aligns CaML's strategy to that of its primary shareholder. The Board has overall responsibility for the establishment and maintenance of CaML'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 is responsible for both the management and the oversight of risks together with the quality and effectiveness of internal controls but has delegated risk management oversight to general management, supported by the risk management committees. The Board is responsible for reviewing, challenging and approving all risk management processes including risk identification and assessment, stress testing and capital adequacy. The various control functions provide further support for the management of risk within the business.

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

Table 6: The Board of Directors

Name	Position	Nationality	Number of internal directorships held
J Edwards	Director	British	1
R J Gill	Director	British	1
J M Johnston	Director	British	11
R Savchuk	Director	Canadian	2

All nominations to the Boards are based on merit, director's qualifications, and in accordance with the needs of the Boards at the time of the nomination with due regard to diversity and gender parity. In addition each appointment is made with a view on the nominee's skills and development requirements and with a line of sight to talent placements and succession planning for the broader organisation. This provides a route to both develop and mobilise key talent.

There is no specific policy on diversity of Board members however CaML is committed to providing equal employment opportunities to all employees and applicants by establishing employment practices, terms, conditions and privileges of employment regardless of race, disability, religion or belief or creed, colour, gender or sex, gender re-assignment, national origin, age, marriage or civil partnership, ancestry, citizenship, ethnic origin, sexual orientation, pregnancy or maternity or other factors prohibited by law. This policy approach has the full support and commitment of the Chief Executive Officer and CaML's Senior Management.

6.2.2 Key committees

The Board leverages BNY Mellon's EMEA (Europe, Middle East, and Africa) Region and key EMEA oversight committees in addition to the BNY Mellon Group Global Risk Management Framework to discharge its responsibilities. These committees include:

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

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

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

Markets EMEA Business Risk Committee, the purpose of which is to enhance transparency of the key risk and control issues facing the Markets business in EMEA and to provide a forum for raising, discussing, approving and escalating these issues; and

EMEA Asset & Liability Committee ("EMEA ALCO") which has oversight responsibility for balance sheet liquidity management of branches and legal entities of BNY Mellon operating in the EMEA Region and is responsible for the efficient and effective functioning of local asset and liability committees or branch liquidity committees in the EMEA Region.

CaML Capital Stress Testing Committee (CSTC), the purpose of which is to ensure adequate governance and ownership for the processes and documentation pertaining to CaML's economic capital requirements, risk model methodologies and capital stress testing.

6.3 Risk management framework

CaML's risk management framework helps ensure that all material risks in each business line are identified, understood, and effectively managed using corporate policies and controls centred on a Three Lines of Defence model (TLOD) 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 Legal Entity Risk Officers and Senior Risk Managers operating at business line and/or functional level.

CaML'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 risk that may be taken
- 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, CaML has adopted the TLOD 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 CaML Board and Senior Management with the assurance that the governance structures, risk management and internal controls in place are effective.

Figure 2: Managing the Three Lines of Defence

BNY Mellon Risk and Compliance policies and guidelines provide the framework for CaML'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 overseas the management of risk for the business and provides challenge and oversight and appropriate management information to the CaML Board and ensures that risk is identified, understood and managed appropriately. It aligns closely with Compliance (2LOD) and Internal Audit (3LOD) plus Finance and Treasury (1LOD) as control functions. It independently educates employees, 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.

CaML'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 CaML risk profile. Details of risk management tools are further explained below.

6.4 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 Risk Management Committees for oversight and challenge, which has delegated authority from the Board. The risk register is a living document and is updated regularly, and at least annually.

6.5 Risk appetite statement

CaML'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.

CaML 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 CaML's Risk Management Committees (RMC's), namely the CaML Operating Committee and the CaML Board. Where residual risks remain (which are within CaML's risk appetite), CaML will allocate capital as provision against potential financial loss.

6.6 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's which ensures that, although the RCSA process is owned by the lines of business in conjunction with the business risk managers, the RMC's have oversight of risk to the business and of the key exception items relating to CaML on an on-going basis.

6.7 Key Risk Indicators

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

6.8 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 analysed and reported to the RMC's on a monthly basis.

6.9 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.

6.10 Market Risk

6.10.1 Market Risk Management objectives and policies

CaML 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 dictates that any business unit, legal entity or employee entering into business generating market risk must be appropriately mandated or otherwise authorised to do so.

6.10.2 Market Risk management governance

Market Risk Management is independent of the business 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 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 management function when the entity's actual market risk exposures exceed currently approved limits. Market Risk management also independently monitors limit breaches.

Depending on the level and type of limit that is breached, escalation and notification is to the Executive Committee, Board Risk Committee, EMEA ALCO, or to Senior Risk Management and Business Management levels in the organisational 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.

6.11 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 reputational risk. The HLA incorporates ratings of inherent risk, quality of controls, residual risk and direction of risk.

6.12 Top risks

Top risks are identified according to the assessment of the inherent risk, quality of controls in place to mitigate risk and likelihood of identifying 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 reporting to the Risk Management Committee and Board. Top risks are also consolidated into the EMEA Regional top risk reporting process for reporting to the EMEA level Risk Committees. CaML'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 CaML's RMC's monthly and the Board quarterly.

6.13 Capital stress testing

Capital stress testing is undertaken to quantify capital requirements and ensure that sufficient capital resources are held against severe yet plausible events on a forward-looking basis. The capital stress scenarios identified include an appropriate range of adverse circumstances of varying nature, severity and duration relevant to CaML's risk profile and business model.

The capital stress scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by CaML's CSTC.

The output of CaML's capital stress testing, including 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, is presented to the Board for approval.

6.14 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 CaML's Board members, soon after determination. Risk management is responsible for supporting the business lines in achieving the following:

- Identifying and documenting all material risks, assessing the effectiveness of control design, and ensuring that control gaps are closed
- Developing and implementing standards and policies appropriate for the business that conform to the principles and guidelines established by Risk
- Elevating, reporting and investigating operating errors, losses and near misses, identifying the root causes and implementing corrective actions
- Reviewing key indicators for coverage and effectiveness, identifying root causes for red and amber conditions and ensuring implementation of corrective actions
- Approving the process to accept new business, including 'Request for Proposal' preparation, contract acceptance and compliance, and challenging whether CaML 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 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.

6.15 Internal Capital Adequacy Assessment Process (ICAAP)

An ICAAP document is produced annually for CaML. The process and document is owned by the CaML 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 company'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 CaML
- Determine the capital requirements 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 CaML Board, can make decisions about the amount of capital that is required and what approach to risk management should be adopted

6.16 Recovery and resolution planning (RRP)

In 2015 a recovery plan was prepared for CaML and submitted to the FCA in accordance with the FCA Handbook. The recovery plan is designed to ensure that CaML has credible and executable options to meet the challenges that may arise from potential future financial crises. A resolution pack was prepared and submitted to the FCA in Q1 2016 and is designed to provide the FCA with sufficient information to identify an appropriate resolution strategy in the event of CaML's failure.

7 Credit Risk

7.1 Definition and identification

Credit risk is the risk of default arising from a borrower's failure to repay a loan or otherwise meet a contractual obligation or other counterparties defaulting on their contractual obligations.

On-balance sheet credit risk covers default risk for loans, commitments, securities, receivables and other assets where the realisation of the value of the asset is dependent on the counterparty's ability and willingness to perform its contractual obligations. Off-balance sheet credit risk includes counterparty credit risk, securities lending indemnifications and letters of credit, which represent unfunded commitments.

Credit risk for CaML is primarily generated on its bank placements/cash deposits; it does not undertake any client/third-party lending or offer credit facilities. Credit risk management of banks and corporates is undertaken by the BNY Mellon Group Credit Risk team and a Credit Risk Manager supports CaML.

7.2 Credit Risk management framework

At the outset of a new 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 CaML's risk appetite for the same. Once it is agreed that the relationship can be entered into and suitable limits would be available to cover the activity, the client can be mandated and moved through the Business Acceptance Committee process for formal approval by all relevant parties. It is the primary responsibility of the business as the first line of defence alongside guidance and oversight of Credit as the second line of defence to identify, based on business activity, the type(s) of credit risk which may be incurred and an estimate of the anticipated levels.

7.3 Monitoring and reporting

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

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

7.4 Governance

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

- Credit 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 by a series of credit risk authorities held within credit policy – each Credit Risk Officer has their own level of authority granted ultimately by the Chief Credit Officer and acts within those limits when making approvals. If an excess is beyond the Officer's approval limit, it is escalated to a higher authority. The outsourcing of credit responsibility to Credit Risk Officers is through the Board approved credit policy

7.5 Analysis of Credit Risk

Credit risk exposure is computed under the Standardised Approach (SA) 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 CaML in accordance with the CRD IV requirements.

The following definitions are used in the tables:

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

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

Geographic area is based on the continental location of 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: Credit Risk Pre and Post Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Exposure Class

This table shows the standardised gross credit exposure by exposure class as at 31 December 2015 and the comparative amounts as at 31 December 2014.

Credit Risk - Exposure at Default (EAD) Pre CRM by Exposure Class	EAD pre CRM		Average EAD pre CRM	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
	£'000	£'000	£'000	£'000
Central governments or central banks	0	0	0	1
Corporates*	44,323	525	54,219	420
Covered Bonds	0	0	0	0
Institutions	42,212	26,598	40,717	22,786
Other items	0	0	1	14
Exposures in Default	0	0	0	0
Equity	3,467	0	867	0
Total	90,002	27,124	95,804	23,221

Credit Risk - EAD post CRM & CCF by Exposure Class	EAD post CRM & CCF		Risk Weight Amount		Capital Requirement	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
	£'000	£'000	£'000	£'000	£'000	£'000
Corporates	466	525	466	525	37	42
Institutions**	42,212	26,598	8,442	5,320	675	426
Exposures in Default	0	0	0	0	0	0
Equity	3,467	0	8,668	0	693	0
Total	46,145	27,124	17,576	5,845	1,405	468

Notes: EAD (Exposure at Default), CRM (Credit Risk Mitigation), CCF (Credit Conversion Factors)
*The increase in Corporate exposure covered by collaterals per the 31st December 2015 COREP relate to unsettled trades, these were subsequently adjusted from the Audited Financial Statements as they had settled prior to US market close.
**The increase in Institutional exposure was a result of increased cash balances held at UK Banks.

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

Table 8: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Geographical Area

This table shows the EAD pre CRM by credit exposure class by geographic area of the counterparty as at 31 December 2015 and the comparative amounts as at 31 December 2014.

SA Credit Risk by Exposure Class at 31 December 2015	Europe	Americas	MEA	APAC	Total
	£'000	£'000	£'000	£'000	£'000
Corporates	44,318	5	0	0	44,323
Covered Bonds	0	0	0	0	0
Institutions	42,212	0	0	0	42,212
Exposures in Default	0	0	0	0	0
Equity	3,467	0	0	0	3,467
Total	89,997	5	0	0	90,002

SA Credit Risk by Exposure Class at 31 December 2014	Europe	Americas	MEA	APAC	Total
	£'000	£'000	£'000	£'000	£'000
Corporates	518	7	0	0	525
Institutions	26,598	0	0	0	26,598
Exposures in Default	0	0	0	0	0
Total	27,117	7	0	0	27,124

Table 9: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Counterparty Type

This table shows the EAD pre CRM by credit exposure class and by counterparty type as at 31 December 2015.

SA Credit Risk by Exposure Class at 31 December 2015	General governments	Credit institutions	Other financial corporations	Various Balance Sheet Items	Total
	£'000	£'000	£'000	£'000	£'000
Corporates	0	0	44,323	0	44,323
Institutions	0	42,212	0	0	42,212
Equity	0	3,467	0	0	3,467
Total	0	45,679	44,323	0	90,002

Table 10: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Residual Maturity

This table shows the EAD pre CRM by credit exposure class by residual maturity as at 31 December 2015 and the comparative amounts as at 31 December 2014.

SA Credit Risk by Exposure Class at 31 December 2015	Less than 3 months	3 months to 1 year	Over 1 year	Total
	£'000	£'000	£'000	£'000
Corporates	44,323	0	0	44,323
Covered Bonds	0	0	0	0
Institutions	42,212	0	0	42,212
Exposures in Default	0	0	0	0
Equity	3,467	0	0	3,467
Total	90,002	0	0	90,002

SA Credit Risk by Exposure Class at 31 December 2014	Less than 3 months	3 months to 1 year	Over 1 year	Total
	£'000	£'000	£'000	£'000
Corporates	525	0	0	525
Institutions	26,598	0	0	26,598
Exposures in Default	0	0	0	0
Total	27,124	0	0	27,124

7.6 Analysis of past due and impaired exposures

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

A Past Due exposure is when a counterparty has failed to make a payment when contractually due. An Impaired exposure is when the entity does not expect to collect all the contractual cash flows when they are due.

As at 31 December 2015, CaML had no material impaired assets for which a specific or general provision was required. CaML did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year ended 31 December 2015.

7.7 Credit Risk mitigation

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

7.7.1 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 CaML 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 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 that are payable on the same settlement date, be netted to produce a single payment obligation for each currency traded.

7.7.2 Collateral valuation and management

CaML 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 CaML 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.

7.7.3 Wrong-way Risk

CaML 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.

7.7.4 Credit Concentration Risk

Credit risk mitigation taken by CaML to reduce credit risk may result in credit concentration risk. This risk results from the concentration of exposure to a single counterparty, borrower or group of connected counterparties or borrowers. This includes on and off-balance sheet (i.e. guarantees) concentration risk.

The number of counterparties CaML 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 risk, exposures are only placed on a very short-term basis (generally overnight) ensuring the ability to withdraw funds in a timely manner.

Table 11: Exposures covered by financial and other eligible collateral

This table shows the total exposure that is covered by financial and other eligible collateral by each exposure class.

Exposure Class	31-Dec-15	31-Dec-14
	£'000	£'000
Corporates	43,857	0
Total	43,857	0

Financial and other eligible collateral can include cash, debt securities or equities, and their values are taken into account for the purposes of calculating the risk weighted exposure amount of the underlying exposure. Using guarantees has the effect of replacing the risk weight of the underlying exposure with that of the institution providing the credit protection. Guarantors are primarily rated as investment grade.

As at 31 December 2015 CaML did not have any exposures covered by guarantees.

7.8 External credit ratings agencies

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

Table 12: Mapping of ECAI's credit assessments to credit quality steps

CaML uses Credit Quality Steps (CQS) to calculate the Risk Weighted Assets (RWA's) associated with credit risk exposures. Each CQS maps to the ECAI's credit assessments.

This table shows the mapping of CaML's nominated ECAI's credit assessments to the credit quality steps.

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

Table 13: Credit quality steps and risk weights

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

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

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

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

Table 14: Credit quality steps pre-CRM by credit exposure class

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

SA* Credit Risk by Exposure Class at 31 December 2015	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporates	0	0	44,323	0	0	0	0	44,323
Institutions	42,212	0	0	0	0	0	0	42,212
Exposures in Default	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	3,467	3,467
Total	42,212	0	44,323	0	0	0	3,467	90,002

* = Standard Approach

SA* Credit Risk by Exposure Class at 31 December 2014	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporates	0	0	525	0	0	0	0	525
Institutions	26,598	0	0	0	0	0	0	26,598
Exposures in Default	0	0	0	0	0	0	0	0
Total	26,598	0	525	0	0	0	0	27,124

* = Standard Approach

Table 15: Credit quality steps post-CRM and CCF by credit exposure class

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

SA* Credit Risk by Exposure Class at 31 December 2015	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporates	0	0	466	0	0	0	0	466
Institutions	42,212	0	0	0	0	0	0	42,212
Exposures in Default	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	3,467	3,467
Total	42,212	0	466	0	0	0	3,467	46,145

* = Standard Approach

SA* Credit Risk by Exposure Class at 31 December 2014	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporates	0	0	525	0	0	0	0	525
Institutions	26,598	0	0	0	0	0	0	26,598
Exposures in Default	0	0	0	0	0	0	0	0
Total	26,598	0	525	0	0	0	0	27,124

* = Standard Approach

7.9 Counterparty Credit Risk

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

The main source of counterparty credit risk for CaML arises from its business trading fixed income and equities on behalf of clients on a principal trading and agency basis. Risk arises to CaML upon a client default, or a lack of client performance under contract creating counterparty credit risk. This is known as pre-settlement risk and is the potential mark-to-market variation in the stock price that would need to be resold or repurchased elsewhere in the market. CaML transacts all business on a DVP (Delivery vs Payment) basis and, on this basis, settlement risk is reduced and limited to special circumstances where approval is granted for 'free delivery' of stock or cash and only occurs in the rare occasion that settlement activity is not DVP.

As at 31 December 2015, CaML did not have any trading book positions or derivative positions in its non-trading book and therefore had no counterparty credit risk.

7.10 Credit valuation adjustment

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

8 Market Risk

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

CaML is only mandated and authorised to trade on behalf of clients on a principal back to back basis and agency basis; as such there are no intended open positions (intra-day and overnight) that generate unhedged market risk.

CaML has limited foreign exchange risk from revenue flows in foreign (non-Sterling) currencies. This exposure is managed and mitigated in line with CaML's Foreign Exchange Hedging Policy.

Table 16: Market Risk – Standardised Approach

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

Positions subject to Market Risk	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
	£'000	£'000	£'000	£'000
Foreign Exchange Risk	151	244	12	20
Total	151	244	12	20

8.1 Interest Rate Risk

Interest rate risk is the risk associated with changes in interest rates that affect net interest income (NII) from interest-earning assets and interest-paying liabilities. For regulatory purposes, interest rate risk is monitored in the trading portfolio and non-trading book separately. IRR exposure in the banking book arises from maturity or re-pricing mismatches and from products that include embedded optionality, the risk could crystallise with changes in interest rate risk/the shape of the yield curve.

CaML has no material assets and liabilities subject to interest rate risk. CaML's exposure to interest rate risk is principally related to interest earnings on its own cash deposits. CaML seeks to earn competitive interest rates on the cash balances held but adopts a very low risk approach (on call deposits only).

Table 17: Net interest income sensitivity by currency

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

Currency	+100 basis points	-100 basis points	+100 basis points	-100 basis points
	31-Dec-15	31-Dec-15	31-Dec-14	31-Dec-14
	£'000	£'000	£'000	£'000
USD	169	(169)	0	0
EUR	0	0	0	0
GBP	253	(253)	264	(264)
Other currencies	0	0	0	0

Total	422	(422)	264	(264)

9 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events (including legal risk but excluding strategic and reputation risk). It may arise from transaction processing, execution, delivery and process management errors, internal or external fraud, damage to physical assets, business disruption due to systems failures, defective product designs and unprofessional practices, and potential legal or regulatory actions as a result of regulatory, ethical or contractual breach.

The following categories of operational risks are considered for CaML:

- Business Disruption & Systems Failure
- Clients, Products and Business Practices
- Execution, Delivery & Process Management
- External Fraud
- Internal Fraud
- Damage to Physical Assets

9.1 Operational Risk management framework

The Operational Risk Management Framework (ORMF) provides the processes and tools necessary to fulfil a strategy of managing risk through a culture of risk awareness, a clear governance structure, well defined policies, 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 as the first line of defence, where ownership and accountability reside for the identification, assessment and management of risks that arise through the course of its business and service provision.

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 function 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 (organizationally independent from both the first and second lines of defence). A key responsibility of the third line as it pertains to the Operational Risk 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 CaML's Risk Management Committees.

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

- Identify and understand key business processes and risks
- Design, document and 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

These activities are prescribed through the company's operational risk program, assessment systems and related processes, including but not limited to:

- Operational Risk Events (ORE's) – a standard for the capture, notification and reporting of ORE's. The collection of internal loss data provides information for assessing the company's exposure to operational risk. Analysis of loss events provides insight into the root cause and information on whether a control weakness is isolated or potentially more systemic
- Risk Control-Self Assessments (RCSA's) – a comprehensive process for business groups and select business partners to identify risks associated with key business processes, identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effectiveness of those controls in place to mitigate that risk
- Key Risk Indicators (KRI's) – the use of key metrics designed to monitor activities which could cause financial loss or reputation damage to the company. Periodic and consistent monitoring of KRIs ensures that deviations from predetermined standards can be identified
- Operational Risk Scenario Analysis - operational risk scenario analysis is used to forecast the most significant operational risks by combining operational risk data with expert management judgement

These activities are mandated through individual Operational Risk Polices. CaML also uses the group wide system of record, the Risk Management Platform (RMP), to facilitate many of these processes.

Additionally, CaML 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.

CaML also maintains a risk register which captures the most material risks associated with the business undertaken and the risk mitigations currently in place. Operational risk is amongst CaML's most material risks. The risk register is updated at least annually.

Current issues, emerging and top risks, adverse KRI's and ORE's (greater than $10,000) are reported to the CaML Risk Management Committees. Regional committees such as the EMEA Senior Risk Management Committee also monitor and incorporate the material risks of CaML in forming its regional risk assessment.

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

9.2 Capital resource requirement

CaML calculates its Pillar 1 operational risk capital resource requirement under the Standardised Approach (SA). It has been determined that CaML falls under the Agency Services Basel business line which mandates a 15% beta factor to determine capital from gross income.

10 Leverage Ratio

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 18: Leverage ratio calculation

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

Regulatory leverage ratio exposures	31-Dec-15
On-balance sheet exposures (excluding derivatives and SFT's)	£'000
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	95,758
Asset amounts deducted in determining Tier 1 capital	-5,756
Total on-balance sheet exposures (excluding derivatives and SFT's)	**90,002**
Derivative exposures	
Replacement cost associated with derivatives transactions	0
Add-on amounts for Potential Future Exposure (PFE) associated with derivatives transactions	0
Exposure determined under Original Exposure Method	0
Total derivative exposures (sum of lines 4 to 5a)	**0**
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	0
Adjustments for conversion to credit equivalent amounts	0
Total off-balance sheet exposures (sum of lines 17 to 18)	**0**
Capital and Total Exposures	
Tier 1 capital	29,024
Exposures of financial sector entities according to Article 429(4) 2nd subparagraph of CRR	0
Leverage Ratios	
Total Exposures (sum of lines 3, 11, 16, 19 and 21a)	90,002
End of quarter leverage ratio	32.1200%
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	29,024
Amount of derecognised fiduciary items in accordance with Article 429(11) of CRR	0

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

11 Remuneration Disclosure

11.1 Governance

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

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

The company's compensation plans are also monitored by a management-level compensation oversight committee (COC). The members of BNY Mellon's senior management include the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer, and the Risk Management and Compliance Chief Administrative Officer. An important responsibility of the COC is to advise the HRCC on any remuneration risk-related issues.

To ensure alignment with local regulations in BNY Mellon's EMEA region, the EMEA Remuneration Governance Workgroup (ERGC) was set up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses, including CaML. CaML remuneration policy decisions rest with the Human Resources and Compensation Workgroup which also approves the year-end compensation awards of its regulated employees.

11.2 Aligning pay with performance

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

Through its compensation philosophy and principles, it aligns the interests of its employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value.

By rewarding success and by ensuring that its incentive compensation arrangements do not encourage its employees to take unnecessary and excessive risks that threaten the value of BNY Mellon or benefit individual employees at the expense of clients, shareholders or other stakeholders.

Its compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. It aims to ensure that both fixed and variable compensation are consistent with business and market practice, fixed compensation is sufficient to provide for a fully flexible variable compensation program, and variable compensation is in the form of annual and/or long-term incentives, where appropriate.

11.3 Fixed remuneration

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

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

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

11.4 Variable compensation funding and risk adjustment

CaML's employees are eligible to be awarded variable compensation. Variable compensation consists of both cash and deferred components and is determined by the functional hierarchy of the business or business partner service to which the individual employee belongs, and in accordance with the terms and conditions of the incentive compensation plan that is applicable for the business or business partner service. The incentive pool funding is based upon the risk-adjusted performance of the business line, legal entity or company as appropriate.

The deferred component is intended to align a portion of the variable compensation award with the management of longer-term business risk. The deferred compensation component is generally awarded in the form of BNY Mellon restricted stock units.

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

11.5 Ratio of fixed to variable pay

The Human Resources and Compensation Workgroup approved an increase in the maximum ratio of variable to fixed pay ("Bonus Cap") from 100% to 200% on 27 Jan 2014 on the basis that the increased cap would not affect the firm's ability to maintain a sound capital base, and allows for the appropriate incentivisation and reward in accordance with the Pay for Performance philosophy. The Board of Directors of BNY International Financing Corporation (IFC), the sole shareholder of CaML, approved an increase of the bonus cap to 200% on 29 July 2014.

11.6 Deferral policy and vesting criteria

For more senior-level employees, a portion of variable compensation will be deferred, under ordinary circumstances for a period of at least three years (albeit such compensation may be deferred on a pro-rata basis for alternative periods), and will be subject to the performance of either (or both of) the company or the respective business. The deferred component of the variable compensation award is usually delivered as restricted stock units whose value is linked to BNY Mellon's share price. The percentage of the variable compensation award to be deferred depends on the level of the position, regulatory requirements and the amount of the award. For regulated employees, the variable compensation portion of an award comprises four different parts: upfront cash, upfront equity, deferred cash and deferred equity, in order to comply with local regulations. All such deferred awards are subject to terms and conditions that provide for forfeiture or clawback in certain circumstances.

11.7 Variable remuneration of control function employees

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

11.8 Quantitative disclosures

The tables below provide details of the aggregate remuneration of senior management and CaML's Material Risk Takers (MRT's) for the year ended 31 December 2015.

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

Table 19: Aggregate Remuneration Expenditure for MRT's in 2015 by Business

This table shows the aggregate remuneration expenditure for MRT's by business.

Aggregate remuneration expenditure for MRT's by business (£000's)	Investment Services	Other[2]	Total
Total remuneration[1]	0	0	0

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

2 Includes all support functions and general management positions.

Table 20: Aggregate Remuneration Expenditure for MRT's by Remuneration Type

This table shows the aggregate remuneration expenditure for MRT's by remuneration type.

Aggregate remuneration expenditure for MRT's by remuneration type	Senior Management[2]	Other MRT's	Total
Number of beneficiaries	0	0	0
Fixed remuneration[1] (£000's)	0	0	0
Total variable remuneration (£000's)	0	0	0
Variable cash (£000's)	0	0	0
Variable shares (£000's)	0	0	0

1 Fixed Remuneration includes base salary and any cash allowances.

2 Senior management is comprised of MRT's identified under Article 3.3 of the EBA RTS for identifying MRT's, consisting of Directors, other Significant Influencing Functions and those holding the corporate title of Executive Vice President.

Table 21: Total Deferred Variable Remuneration for MRT's Outstanding from Previous Years

This table shows the total deferred remuneration for MRT's outstanding from previous years.

Total deferred remuneration for MRT's outstanding from previous years	Senior Management[1]	Other MRT's	Total
Number of beneficiaries	0	3	3
Total deferred variable remuneration outstanding from previous years (£000's)	0	0	0
Total vested (£000's)	0	0	0
Total unvested (£000's)	0	0	0

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

Table 22: Number and Value of New Sign-on and Severance Payments made during 2015

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

Number and value of new sign-on and severance payments	Senior Management[1]	Other MRT's	Total
Number of sign-on payments awarded during 2015	0	0	0
Value of sign-on payments awarded during 2015 (£000's)	0	0	0
Number of severance payments awarded during 2015	0	0	0
Value of severance payments awarded during 2015 (£000's)	0	0	0
Highest individual severance payment awarded during 2015 (£000's)	0	0	0

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

Table 23: Number of Individuals receiving annual remuneration of £1 million or more

This table shows the number of individuals receiving annual remuneration of £1 million or more.

Number of individuals receiving remuneration ≥ £1 million	Total Number of Individuals
£1m – £1.5m	0
£1.5m – £2m	0

Appendix 1 Other Risks

Liquidity Risk

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

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

CaML generates cash from spreads and commissions on principal trading / agency basis. The cash generated is offset by variable costs arising from its outsourced clearing function and administrative overheads.

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 loss arising from non-compliance with laws, directives, regulations, reporting standards and lack of adequately documented and understood processes.

CaML aims to comply with applicable laws, regulations, policies, procedures and BNY Mellon'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.

The Compliance function is structure as follows:

- EMEA Compliance Advisory provides technical advice on regulatory compliance issues and represents compliance in entity governance forums and business-led meetings (e.g. business acceptance, risk committees and boards/executive committees) and provides compliance input

- EMEA Compliance Monitoring develops and executes a risk-based compliance monitoring programme designed to identify regulatory gaps and irregularities in the operations of CaML
- EMEA Financial Crime Team leads on all aspects of AML/KYC, economic sanctions and data protection compliance

To date, CaML has not suffered from a sanction event where the regulator has imposed a fine.

Reputation Risk

Reputation risk is the risk to the company's brand and relationships. 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 events that could lead to loss of confidence in the brand
- Legal or operational events leading to publicised failure that 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

CaML identifies and assesses the impact of reputation risk through its risk management processes and by using scenario analysis.

Legal Risk

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

BNY Mellon's legal risks fall into the following categories:

- Corporate
- Client
- Employee
- Supplier

These can occur as a result of non-payment / non-performance. CaML mitigates its legal risk through strict policies and procedures designed to ensure contractual obligations are fulfilled, and to minimise the risk of legal action; and through dedicated internal counsel and the use of external counsel. The legal risk associated with Corporate, Client and Supplier legal risk are considered low, based on historical and current experience and this is not envisaged to change on a business as usual basis.

Settlement Risk

Settlement risk is the risk of loss arising from the failure of a counterparty to settle its side of a transaction whilst CaML has settled its commitment.

CaML is subject to settlement risk on trades. The credit risk policy for securities settlement amounts receivable is to monitor the level of past due receivables on a daily basis. Provisions are raised where the recovery of a debt is considered to be unlikely. All clients with whom the Company deals are subject to detailed credit analysis and a high level assessment of market counterparties is carried out prior to allowing clients to trade.

Non-Trading Book Exposures in Equities

CaML did not have any non-trading book exposures in equities as at 31 December 2015 or during the reporting period.

Securitisation Risk

Securitisation risk is the risk that the capital resources held in respect of assets that CaML has securitised are insufficient to cover the associated liabilities. As at 31 December 2015 and during the reporting period CaML 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 providers could potentially damage CaML's operations, or if contracts with any of the third party providers are terminated, that CaML may not be able to find alternative providers on a timely basis or on equivalent terms.

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

CaML'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 CaML'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. This list is not exhaustive.

As business risk is difficult to assess, it has been defined as the residual risks that confront CaML after taking all known and quantifiable risks into consideration. Regular monitoring of trades, revenue and profitability is a key control used to mitigate this type of 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 company.

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

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

CaML's management has considered several possible scenarios where these services may be affected, these include IT services outage and other business continuity issues. Although these can potentially 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 liquidity stress testing. This risk is mitigated through service level agreements (SLA's) with key dependencies and regular monitoring of performance by the Operating Committee.

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 reputational damage to CaML or BNY Mellon as a whole. CaML 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 are required to be validated or reviewed, as per the validation standards, on at least an annual basis. The validation of Tier 1 models is performed by a designated independent model validation function.

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

Strategic Risk

Strategic risk is defined as the risk of direct or indirect loss arising from adverse effects or 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 which impact CaML or failure to deliver business value through new strategic initiatives.

Country Risk

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

Pension Obligation Risk

Pension Obligation Risk arises from contractual liabilities or legal obligations to a company's employee pension schemes. BNY Mellon in EMEA operates a number of defined contribution and defined benefits pension arrangements where contributions are paid into separate arrangements, typically to an insurer or trust. CaML is not exposed to Pension Obligation risk, however.

Appendix 2 Glossary of Terms

The following terms are used in this document:

- **ALCO:** Asset and Liability Committee
- **Basel III:** The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010
- **BNY Mellon:** The Bank of New York Mellon
- **CRD IV:** On 27 June 2013, the European Commission published, through the Official Journal of the European Union, its legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR), which together form the CRD IV package. Amendments published on 30 November 2013 were made to the Regulation. The package implements the Basel III reforms in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. CRD IV rules apply from 1 January 2014 onwards, with certain requirements set to be phased in
- **Capital Requirements Directive (CRD):** A capital adequacy legislative package issued by the European Commission and adopted by EU member states
- **Capital Requirements Regulation (CRR):** Regulation that is directly applicable to anyone in the European Union and is not transposed into national law
- **Common Equity Tier 1 capital (CET1):** The highest quality form of regulatory capital under Basel III comprising common shares issued and related share premium, retained earnings and other reserves excluding cash flow hedging reserves, 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 financial instrument that derives its value from one or more underlying assets, for example bonds or currency rates
- **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.
- **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 an indication of anticipated direction
- **Institutions:** Under the Standardised Approach (SA), 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 based on guidelines developed by the International Swaps and Derivatives Association 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
- **Legal Entity Risk Officer (LERO):** The chief risk officer for a particular legal entity who has oversight of the holistic risk pertaining to the entity
- **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
- **MRT:** Material Risk Taker as defined by the European Banking Authority Final Regulatory Technical Standards on criteria to identify categories of employees whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU ("CRD IV")
- **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 UK statutory body responsible for the prudential supervision of banks, building societies, credit unions insurers and major investment firms
- **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 can tolerate exposure to
- **Risk and Control Self-Assessment (RCSA):** Risk and Control Self-Assessments are used by business lines to identify risks associated with their key business processes. They are used to create a detailed assessment of the risk and associated controls
- **Risk Governance Framework:** CaML's Risk Governance Framework has been developed in conjunction with BNY Mellon requirements. Key elements of the framework are:
  - Formal governance committees, with mandates and attendees defined
  - Clearly defined escalation processes, both informally (management lines) and formally (governance committees, Board, etc.)
  - A clear business as usual process for the identification, management and control of risks
  - Regular reporting of risk issues
- **Risk Management Committee (RMC):** A committee which meets on a regular basis to provide governance on risk related items arising from the business of the group
- **Risk Register:** A risk and control assessment of a legal entity's risk landscape covering all risk types. Used to provide the LERO and the Board with an overview of the inherent and residual risks that the entity is exposed to and to track 'top risks' mitigation plans. The risk register is used to inform management when setting risk appetite for the entity
- **Risk Weighted Assets (RWA)**: Assets that are adjusted for their associated risks using weightings established in accordance with CRD IV requirements
- **Standardised approach (SA)**: The method used to calculate credit risk capital requirements using the Basel III, CRD IV, CRR model supplied by the Basel Committee on Banking Supervision. All financial institutions must opt to either use the Standardised Approach 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

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