The Bank of New York Mellon SA/NV

2016 ANNUAL REPORT

BNY MELLON | Invested

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KEY FINANCIAL FIGURES & LETTER FROM THE CEO

This a summary of key figures extracted from the consolidated financial statements disclosed from page 36 onwards.

	2016	2015
	In € '000	**In € '000**
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME		
Net interest income	86,888	78,063
Net fee and commission income	397,339	430,519
Profit before taxes from continuing operations	**310,466**	**321,233**
NET PROFIT FOR THE YEAR	**230,849**	**263,797**

	2016	2015
	In € '000	**In € '000**
ASSETS		
Cash and cash balances with central banks	10,895,789	11,656,148
Derivative financial instruments	218,715	225,221
Loans and advances to customers	10,368,423	7,899,664
Investment securities	14,022,590	14,781,373
Other assets	327,389	234,877
Property and equipment	5,884	10,868
Goodwill and other intangible assets	571,662	579,552
Tax assets	16,848	29,174
TOTAL ASSETS	**36,427,299**	**35,416,878**
LIABILITIES		
Derivatives financial instruments	261,428	256,978
Financial liabilities measured at amortized cost	32,988,797	32,283,292
Other liabilities	188,884	130,468
Provisions	7,209	5,282
Tax liabilities	48,737	48,041
TOTAL LIABILITIES	**33,495,055**	**32,724,062**
TOTAL EQUITY	**2,932,244**	**2,692,816**
TOTAL LIABILITIES AND EQUITY	**36,427,299**	**35,416,878**
CLIENT ASSETS		
Assets under custody (€ trillions)	3.5	3.2
TOTAL	**3.5**	**3.2**
PERSONNEL		
Number of employees		
In Belgium	599	639
Abroad	936	872
TOTAL	**1,535**	**1,511**

Letter from the CEO

The Bank of New York Mellon SA/NV (BNY Mellon SA/NV) had a solid year in 2016. Despite a decrease in profitability (net income decreased by 12.5% in 2016) which is mainly resulting from a higher effective tax rate and a decrease in intra-group activity, capital ratios remained strong and the balance sheet remained stable, highly liquid and liability driven.

BNY Mellon SA/NV enjoys diverse revenue sources, generated by a wide product range which we deliver to our clients.

Our net fee and commission income has decreased by 8% in 2016 mainly due to a decrease in the business activity of our main intra-group client. The active management of our Investment Portfolio, within the guardrails of our Investment Guidelines and Risk Appetite, combined with the results of recharge of negative interests to clients which started in 2015 have generated an increase of 11.3% in net interest income in 2016. Our strategy, business model, and organizational design enable us to be responsive to environmental factors and forces driving change, which remain dominated at this time by regulatory, political and economic events and opportunities such as the developments around Target2 Securities.

In 2016 we have continued to expand our relationships with our regulators, meeting all regulatory deliverables, delivering or progressing according to plan on key projects. We support clients and deliver Investment Services (Asset Servicing, Broker Dealer Services, Depository Receipts and Corporate Trust) and Markets (Foreign Exchange, Collateral and Segregation, Liquidity Services) products through our Branch and Subsidiary network in Belgium, Germany, The Netherlands, Ireland, Italy[1], France, Luxembourg, and the UK. Clients appreciate the financial strength of both BNY Mellon SA/NV and our parent, the BNY Mellon Group. The European business and footprint is a key component of the Group's business and strategy, and BNY Mellon SA/NV contribute to this strategy, in Europe and its position is strengthened by the vote on "Brexit" in June 2016. With banking entities both in the United Kingdom and in Belgium, the Group is well positioned in Europe versus its competitors and the "Brexit" outcome, which is currently uncertain, may create business opportunities for BNY Mellon SA/NV.

Together with our employees, the Executive Team and the Board of Directors, we are working to support our clients and to continue to provide them innovative and long term solutions within the rewarding framework of the BNY Mellon Group and considering markets developments.

Laura Ahto
Chief Executive Officer

[1] As from April 1st, 2017

REPORT OF THE BOARD OF DIRECTORS [2]

[2] This report was established according to the article 119 of the Belgian Company Code.

1. Profile: The Bank of New York Mellon SA/NV

The Bank of New York Mellon SA/NV ("BNY Mellon SA/NV" hereafter) is a wholly owned subsidiary of The Bank of New York Mellon. The Bank of New York Mellon is the main banking entity of The Bank of New York Mellon Corporation (BNY Mellon).

BNY Mellon is an NYSE listed financial holding company focusing its activities on Investment Management (Asset and Wealth Management) and Investment Services (Asset Servicing, Corporate Trust, Global Markets, Global Collateral Services, Depository Receipt Services and Broker Dealer Services). Investment Services represents approximately 60% of the fee revenues of BNY Mellon.

History

30/9/2008	The Bank of New York Mellon SA/NV was established as a Belgian public limited liability company.
10/3/2009	Banking license granted.
1/10/2009	Merger with BNY Mellon Asset Servicing BV leading to the creation of branches in Amsterdam, London, Frankfurt and Luxembourg and a representation office in Copenhagen.
(1/10/2010	BNY Mellon acquired BHF Asset Servicing and BNYMSKVG in Germany)
1/6/2011	Merger with BNY Mellon Asset Servicing Gmbh. BNYMSKVG becomes fully an owned subsidiary.
1/12/2011	Creation of the Paris branch.
12/2012	Status of Assimilated Settlement Institution was granted.
1/02/2013	Merger with The Bank of New York Mellon (Ireland) Limited, creating the Dublin branch.

Headquartered in Brussels, BNY Mellon SA/NV distributes products and services through its branch network in Europe and is BNY Mellon's largest banking subsidiary in the Europe, Middle-East and Africa (EMEA) region and focuses its activities on the Investment Services segment. Its main activity is Asset Servicing, which is provided both to third party and to internal clients within The Bank of New York Mellon group (BNY Mellon group).

BNY Mellon SA/NV is strategically important for the BNY Mellon group as it is the primary contracting entity for Asset Servicing in Europe. BNY Mellon SA/NV manages a network of sub-custodians in approximately 100 markets to support multiple product lines and to streamline cash management. BNY Mellon SA/NV also facilitates the expansion of BNY Mellon into other EU countries through the establishment of a network of branches and cross-border delivery of services. BNY Mellon SA/NV's current strategic priority focusses on developing this franchise by executing on major BNY Mellon Group and EMEA strategic change programs as well as implementing regulatory requirements. This is positioning BNY Mellon SA/NV as the European Union (excluding United Kingdom, including Switzerland) custodian for the BNY Mellon Group and the fund servicing entity in that region as well as the BNY Mellon Group's gateway to the Target2 Securities markets. BNY Mellon SA/NV will remain a servicing entity for the BNY Mellon Group and a contracting entity for other business lines in the region.

The Investment Services segment generates substantial operational cash balances that are managed by the Treasury of BNY Mellon SA/NV that appropriately balance the risk/return rewards.

The client base of BNY Mellon SA/NV consists of international institutional clients investing in or issuing financial assets. Main client segments are pension funds, insurance companies, financial institutions and asset managers.

As any bank incorporated in Belgium, BNY Mellon SA/NV is subject to dual supervision: for conduct matters, this supervision is exercised by the Financial Services and Markets Authority (FSMA); for prudential matters, this supervision is exercised by the European Central Bank, together with the National Bank of Belgium, because BNY Mellon SA/NV is a significant bank within the Single Supervision Mechanism. As assimilated settlement bank, BNY Mellon SA/NV is also supervised by the National Bank of Belgium.
In the context of the regular review and audit, the regulators are formulating recommendations and BNY Mellon SA/NV is following up on these recommendations and has detailed plans to address them.

1.1. Business Model

BNY Mellon SA/NV's business model is consistent with the BNY Mellon's business model in providing investment services across the entire investment lifecycle and being largely fee-driven.

Approximately 80% of revenue is provided by non-interest fee income, providing a more annuity-like revenue stream that is less sensitive to stress scenarios. This results in a stable deposit base and revenue streams, even during periods of market stress. In addition, BNY Mellon SA/NV experiences a low level of non-performing assets as a majority of its clients are large corporations and financial institutions. Furthermore, the bank is not active in lending but only in operational loans performed in the context of contractual settlement. Those exposures are covered through a lien on the assets. Our balance sheet is characterized by highly liquid assets and a robust capital structure. Furthermore, the balance sheet is liability driven and managed in a way that ensures access to external funding sources at competitive rates if it would be required in a stress condition. Overall BNY Mellon SA/NV's business model is structured in a way that benefits from periods of global growth.

1.2. Services and Products

Asset Servicing
Asset Servicing primarily comprises Global and Local Custody Services but also includes Depositary Services, Institutional Accounting, Fund Accounting, Transfer Agency services, Capital Markets Trading Desk, Derivatives 360° - Middle Office and Derivatives Margin Management, Middle Office Operations Services and Depositary Receipts.

Global Custody is the main service provided by BNY Mellon SA/NV. It provides custodial services for clients including services selected and utilized by owners of securities (or their advisors) to assist in providing instruction capture, settlement, corporate actions and income and tax services related to their securities. Global Custody collects all revenues on behalf of its clients and alerts clients to take all required actions as owners.

BNY Mellon SA/NV is providing global custodian services to international clients and BNYM SA/NV is a global custodian for BNY Mellon.

Assets are held worldwide on behalf of other BNY Mellon entities through relationships with third-party sub-custodians or with central securities depositories.

As of 31 December 2016, BNY Mellon SA/NV had € 3.5 trillion Assets under Custody.

Corporate Trust
BNY Mellon SA/NV offers Corporate Trust services, acting in a broad range of agency roles including, but not limited to: trustee, registrar, issuing and paying agent, common depository, exchange agent, custodian and collateral/ portfolio administration.

Markets
BNY Mellon SA/NV offers the following Markets services:

- *Foreign Exchange*: BNYM SA/NV provides foreign exchange services which enable clients to achieve their investment, financing and cross-border objectives.
- *Collateral Management and Segregation:* BNYM SA/NV provides Collateral Management, Administration and Segregation Services which serve broker-dealers and institutional investors facing expanding collateral management needs
- *Liquidity Services:* BNYM SA/NV provides sales and client service to clients enabling clients to view, transact and generate reporting for their daily liquidity activities via an on-line platform.

Global Markets
BNY Mellon SA/NV provides global markets services which enable clients to achieve their investment, financing and cross-border objectives. This business provides Currency Hedge Administration and Foreign Exchange Services within BNY Mellon SA/NV.

Depositary Receipt Services
BNY Mellon SA/NV Dublin Branch performs certain operational activities relating to Depository Receipts, predominantly issuance and cancellation. Depository Receipts facilitate cross-border investment solutions for companies and investors. They are negotiable financial securities issued by a bank to represent foreign companies' publicly traded securities, allowing them to have their stocks traded in foreign markets.

Broker Dealer and Advisory Services
Broker Dealer and Advisory Services conduct global clearing (client servicing) services for equity and fixed income transactions.

BNY Mellon SA/NV provides most of these products to its international client base. BNY Mellon SA/NV clients contract with BNY Mellon SA/NV for all of the above services except Depositary Receipt Services. BNY Mellon SA/NV only provides the latter services to other legal entities within The Bank of New York Mellon (BNY Mellon) group. BNY Mellon SA/NV's main service is Global Custody (part of Asset Servicing).

The drivers of various businesses within BNY Mellon SA/NV are considered below:

- The drivers for financial results of the Asset Servicing business include:
  a) Levels of client transaction activity;
  b) Volatility of the securities markets; and
  c) Market value of assets under administration and custody.
- Market interest rates impact the earnings on client deposit balances.
- Broker-dealer fees depend on the level of activity in the fixed income and equity markets and on the financing needs of clients, which are typically higher when the equity and fixed income markets are volatile.

- Foreign Exchange (FX) trading revenues are influenced by the volume of client transactions, the spread realized on these transactions, market volatility in major currencies, the level of cross-border assets held in custody for clients, the level and nature of underlying cross-border investments and other transactions undertaken by corporate and institutional clients.

Business expenses principally are driven by correspondent expenses, staffing levels and technology investments.

2. External Factors Influencing BNY Mellon SA/NV

Interest rates remained at low level in 2016. The increases in Bank of England and Federal Reserve rates have been offset by further decrease in European Central Bank.

In this difficult rate environment BNY Mellon SA/NV has succeeded to stabilize and even slightly increase its Net Interest Margin thanks to the initiatives started in 2015, among other the re-charge of negative interest to clients, and active management of the balance sheet.

The vote on “Brexit” is another key external factor that will influence BNY Mellon SA/NV.

However lots of uncertainties remain at this stage on exactly what will happen and when and we did not see any impact in 2016 yet.

BNY Mellon is well positioned vs competition thanks to BNY Mellon Group’s legal entities rationalization strategy. BNY Mellon has a unique selling proposition offering banking entities that fit any needs of client, with BNY Mellon SA/NV positioned as the “European Bank”.

3. Business Evolution in 2016

3.1. Main Events

Regarding the implementation of its strategic plan, 2016 has been a transition year for BNY Mellon SA/NV. BNY Mellon SA/NV has started to deliver its T2S strategy and has worked at preparing the implementation of initiatives, driven by the BNY Mellon Group’s legal entities rationalization effort, which will materialize in 2017.

To mitigate the impact of negative interest rates, BNY Mellon SA/NV has further implemented re-charge of negative interest to its client base in order to better reflect the cost of deposits.

As explained above the “Brexit” vote has had limited impact in 2016, with merely some uncertainties around the referendum dates.

3.2. Analysis of Financial Figures

BNY Mellon SA/NV has decreased its net earnings after taxes by 12.5% to € 231 Mio in 2016 compared to €264 Mio in 2015, delivering an 8.5% return on equity in 2016 (down 231 bps). The decrease is mainly explained by higher effective tax rate mainly due to one off tax adjustment in favor of BNY Mellon SA/NV London branch in 2015.

In addition we see a continuous pressure on fees, materialized by a decrease of the fees and commissions' income in 2016 by 7.1% to €716 Mio, mainly explained by the decreasing business booked in BNY Mellon Brussels Branch, the main internal client of BNY Mellon SA/NV, as well as decreasing activity in Depository Receipts business in our Dublin branch.

BNY Mellon SA/NV has however succeeded to control cost to mitigate these negative trends.

With stable average balance sheet size over a 12 month period in 2016 vs 2015 and negative interest rates in major currencies, BNY Mellon SA/NV still succeeded to increase its interest margin to €86.8 Mio (11% growth vs 2015).

This increase reflects the structural shift in balance sheet composition as well as the impact of charging negative interest rates to clients where applicable.

BNY Mellon SA/NV continued to maintain a positive operational leverage, while the coverage ratio (fees revenue vs total expenses) decreased to 120.7%, 1,209 bps worse than in 2015.

The decreased net income over an increased balance sheet has resulted in a lower return on assets from 0.74% in 2015 to 0.63% in 2016.

On the assets side, central bank placements decreased (-€0.8 billion), as well as investments in fixed income securities decreased (-€0.8 billion), while investments in certificates of deposits increased (+€1.9 billion).

4. Structure and Corporate Governance

4.1. Structure of BNY Mellon SA/NV

As at 31 December 2016 BNY Mellon SA/NV has six branches across Europe and a subsidiary based in Frankfurt[3].

Shareholding Structure and the agenda of the General Meetings

The shareholder structure of BNY Mellon SA/NV is given in the table below.

Shareholder Structure on 31 December 2016	*Number of ordinary shares*	*%*
The Bank of New York Mellon (BNY Mellon)	1,544,765	99.9999%
BNY International Financing Corporation (BNY IFC)	1	0.0001%
Total	1,544,766	100.00%

The Bank of New York Mellon is located at 225 Liberty Street, New York, New York 10286, United States. BNY IFC is a subsidiary of The Bank of New York Mellon (Institutional Bank) which in its turn is a subsidiary of BNY Mellon Corporation (the holding company). BNY IFC is located at the same address and holds 1 share of BNY Mellon SA/NV.

The annual meeting of shareholders of BNY Mellon SA/NV is held each year on the last Tuesday of the month of May. The items submitted to the annual meetings of shareholders for a decision typically include:

- the approval of the annual accounts and allocation of results;
- a report from the Board of the general business strategy to be adopted in the following year;
- the appointment of Directors;
- the appointment of statutory auditors;
- the vote of the discharge of Directors and auditors.

[3] Due to their nature and activities, the following two legal entities were not taken into account:

- Stichting Administratiekantoor BNY Mellon Global Custody (The Netherlands)
- BNY Mellon Global Custody B.V. (The Netherlands)

These two entities are not material due to the fact that their sole reason for existence is to hold securities not listed in the Netherlands for Dutch clients to ring fence them from own securities as a result of the then applicable Dutch securities laws. However, as older contracts with Dutch clients still make reference to these entities, they are still in place.

4.2. Composition and Activities of the Board and its Committees

The table below shows the members of the Board and its committees on 31 December 2016:

Name	*Position*
Non-Executive Directors	
Michael Cole-Fontayn	Chair of the Remuneration Committee and Member[4] of the Nomination Committee
Marie-Hélène Crétu	Independent Chair of the Audit Committee and Independent Member of the Remuneration Committee
Peter Johnston	Member of the Audit Committee and Member of the Risk Committee
Hani Kablawi	Member of the Audit Committee and Member of the Risk Committee
Olivier Lefebvre	Independent Chair of the Board of Directors, Independent Member of the Audit Committee and Independent Member of the Nomination Committee
Jürgen Marziniak	Independent Chair of the Risk Committee and Independent Member of the Remuneration Committee
Executive Directors	
Laura Ahto	Chief Executive Officer President of the Executive Committee
Hedi Ben Mahmoud	Chief Risk Officer Member of the Executive Committee
Annik Bosschaerts	Chief Operations Officer Member of the Executive Committee
Eric Pulinx	Chief Financial Officer Deputy Chief Executive Officer Member of the Executive Committee
Leonique van Houwelingen	Member of the Executive Committee

[4] acting Chairman

Changes in the composition of the Board and the Committees in 2016

During the year 2016, main changes to the composition of Board and Committee were:
- On 21 April 2016, Peter Johnston was appointed as member of the Board of Directors, member of the Audit Committee and member of the Risk Committee.
- On 21 April 2016, Leonique van Houwelingen was appointed as member of the Executive Committee and of the Board of Directors.
- On 21 April 2016, Marie-Hélène Crétu was appointed as member of the Board of Directors, Chair of the Audit Committee (replacing Olivier Lefebvre) and member of the Remuneration Committee.

On 16 December 2016, Karen Peetz retired as member of the Board of Directors, Chair of the Nomination Committee and member of the Remuneration Committee.

Report on the activities of the Board

The primary responsibilities of the Board of Directors are to define the strategy and risk policy of BNY Mellon SA/NV and to supervise BNY Mellon SA/NV's management.

The main duties and responsibilities of the Board of Directors of BNY Mellon SA/NV include, but are not limited to:

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

- ensuring the succession planning for key managers;
- reviewing the Company's processes for protecting the Company's assets and reputation;
- approving policies and procedures as may be required by law or otherwise appropriate;
- reviewing the Company's processes for compliance with applicable laws, regulations and the internal policies including the Code of Conduct;
- overseeing the process of external disclosure and communications.

The structure of the Board’s Committees and report on its activities

The Board shall set up an Executive Committee exclusively composed of Board members entrusted with the general management of the Company with the exception of (i) the determination of the strategy and general policy of the Company and (ii) the powers reserved to the Board by Law or by the articles of association. The members of the Executive Committee are executive directors.

The Board may create advisory committees within the Board and under its responsibility in view of performing its responsibilities more efficiently. As at 31 December 2016, the Board had four advisory committees - Audit, Risk, Nomination and Remuneration - that must be established by the Board in accordance with the requirements of the Belgian Banking Law.

The Audit Committee assists the Board in fulfilling its oversight responsibilities in respect of: (i) the integrity of the BNY Mellon SA/NV financial reporting process and financial statement; (ii) the effectiveness of BNY Mellon SA/NV internal control and risk management systems, (iii) the performance of the BNY Mellon SA/NV internal audit function, and (iv) the statutory auditor’s qualifications, independence, provision of additional services and performance.

The Risk Committee advises the Board on the Company’s overall current and future risk appetite and strategy and assists the Board in overseeing the implementation of that risk strategy by the Executive Committee. The Risk Committee also assists the Board in fulfilling its oversight responsibilities with regard to the risk management of the Company, as well as the compliance with legal and regulatory requirements and the controls to prevent, deter and detect fraud.

The Nomination Committee makes recommendations to the Board with respect to the nomination of the Company’s directors and to the composition of the Board and its committees.

The Remuneration Committee assists the Board in fulfilling its responsibilities in respect of remuneration within BNY Mellon SA/NV including its branches and subsidiary. The Remuneration Committee’s main duty is to advise the Board in defining the Remuneration Policy of the Company. The Remuneration Committee is in charge of the preparation of Board’s decisions relating to the remuneration, in particular where such remunerations have an impact on the Company’s risks and risk management, including the remuneration of the independent control functions. The Remuneration Committee is also responsible for reviewing: (i) BNY Mellon SA/NV’s remuneration policy statement (“Remuneration Policy Statement”) in light of applicable laws, regulations and Corporate policies; (ii) the compensation plans (“Compensation Plans”) applicable within BNY Mellon SA/NV against the Remuneration Policy; and (iii) practices, including awards paid, in light of the Remuneration Policy, applicable laws and regulations and Corporate policies.

The Executive Committee (“ExCo”) of BNY Mellon SA/NV has been established by BNY Mellon SA/NV’s Board of Directors in accordance with Article 24 of the Act of 25 April 2014 on the status and oversight of credit institutions and Article 524bis of the Belgian Companies Code and has been entrusted with the general management of BNY Mellon SA/NV with the exception of (i) the determination of the strategy and general policy of BNY Mellon SA/NV and (ii) the powers reserved to the Board by law or the articles of association. The ExCo is responsible for running the general management of the Company within the strategy and the general policy defined by the Board and for ensuring that the culture across the Company facilitates the performance of business activities with integrity, efficiency and effectiveness. The ExCo shall review corporate initiatives including strategic initiatives, financial performance, new business initiatives, policy changes, controls and organizational development. The ExCo has responsibility across all Lines of Business performed in or that impact BNY Mellon SA/NV and its branches and subsidiary.

In addition, the ExCo may create sub-committees under its responsibility in view of performing its responsibilities more efficiently. The following sub-committees were created by the ExCo:

- Risk Management Committee
- Belgian Asset and Liability Committee
- Credit Risk Oversight Committee
- Capital and Stress Testing Committee
- Business Acceptance Committees.

4.3. External Functions Performed Outside of the Group

The following table provides an overview of the external functions performed outside of the BNY Mellon group by the directors (as at 31 December 2016):

BNY Mellon SA/NV Board member	Function at BNY Mellon SA/NV	Name of the other company in which an external function is exercised	Location (country)	Type of activities	Listed company (Y/N)	External mandate (title)	Capital connection with SA/NV (Y/N)
Olivier Lefebvre	Independent Chair of the Board of Directors, Independent Member of the Audit Committee and Independent Member of the Nomination Committee	Xylowatt sa	Belgium	Electricity	N	Director	N
		Climact sa	Belgium	Environmental consultancy	N	Chairman of the Board	N
		Société Régionale d'Investissement de Wallonie sa (SRIW)	Belgium	Regional Investment Companies	N	Non-executive Director	N
		Ginkgo Management sarl Ginkgo Management sarl II	Luxemburg	Real Estate Fund Management	N	Independent Director	N
Marie-Hélène Crétu	Independent Chair of the Audit Committee and Independent member of the Remuneration Committee	CoDiese & GRC founder & partner	France	Finance consultancy	N	Founder and Partner	N
		Montpensier Finance	France	Assets Management Company	N	Independent Director	N
Michael Cole-Fontayn	Chair of the Remuneration Committee and member of the Nomination Committee	Association for Financial Markets in Europe	United Kingdom	Financial services	N	Non-executive Chairman	N
		City UK	United Kingdom	Trade association	N	Non-executive Director	N
		British American Business Advisory	United Kingdom	Trade association	N	Non-executive Director	N
Jürgen Marziniak	Independent Chair of Risk Committee and Independent Member of the Remuneration Committee						
Peter Johnston	Member of the Audit and Risk Committees						
Hani Kablawi	Member of the Audit and Risk Committees	Arab Bankers Association London, UK	United Kingdom	Financial services	N	Vice Chairman and Board Member	N

Laura Ahto	Chief Executive Officer President of the Executive Committee	American Chamber of Commerce in Belgium VZW/ASBL	Belgium	Business Services	N	Board Member	N
		Post-Trade Board of AFME	Belgium	Business Services	N	Member	N
Hedi Ben Mahmoud	Chief Risk Officer Member of the Executive Committee						
Annik Bosschaerts	Chief Operations Officer Member of the Executive Committee						
Eric Pulinx	Deputy Chief Executive Officer Chief Financial Officer Member of the Executive Committee	Febelfin Academy - Banking Association	Belgium	Financial services	N	Non-executive Director	N
Leonique van Houwelingen	Member of the Executive Committee	Voorzitter / Chairman Foreign Bankers'Association (FBA)	The Netherlands	Financial services	N	Non-executive Chairman	N
		Bestuurslid / Board Member Nederlandse Vereniging van Banken (NVB)	The Netherlands	Financial services	N	Non-executive Director	N

No director has declared a personal conflict of interest that would give rise to the application of article 523 of the Belgian Companies Act.

4.4. Individual and Collective Competency/Skills

In order to ensure that Board committee members have individually and collectively the adequate skills in order for each Board committee to properly fulfill its role and duties, the Nomination Committee reviewed the composition of the Board Committees.

The Nomination Committee confirmed that the respective membership of the following Board Committees is adequate in order for such Board Committees to be collectively competent to fulfill the following respective responsibilities and for each of its respective members to have the necessary skills, knowledge and experience to understand and assess the following respective aspects:

- the **Audit Committee** for the review of the Company's financial reporting activities, accounting and audit;

  The Chairman of the Audit Committee, Marie-Hélène Crétu is an independent non-executive director. She has over 30 years of diversified, multicultural leadership and managerial experience mostly in the financial industry. Mrs. Crétu has significant experience in finance, operations, audit and compliance in various financial company environments, with extensive international exposure through global project leadership, company directorship, and strong knowledge of global cash and derivatives markets and their key players. She held various leadership positions at Cargill Investor Services Paris, London and Chicago during 10 years, a global clearer on derivative markets. Mrs. Crétu worked for Ernst & Young as an auditor and for exchanges (MTS, NYSE-Euronext), defining and implementing strategy and business development.

  Hani Kablawi, member of the Audit Committee joined BNY Mellon in 1997 and since then has held a number of senior country and client management positions based in New York, Abu Dhabi, Dubai and London. Before joining BNY Mellon, he worked for HSBC and Mashreq Bank in New York. He earned a Bachelor of Business Administration in

1989 and a Master of Arts in Finance in 1990, both from The University of Iowa. He became a Chartered Financial Analyst in 1993.

- the **Risk Committee** for the review of the Company's risks and system of internal controls;
- the **Nomination Committee** for the exercise of relevant and independent judgment on the composition and functioning of the Board and its Committees and the suitability of the committees' members; and
- the **Remuneration Committee** for the exercise relevant and independent judgment on the Company's remuneration policy and on the incentives.

As part of this exercise, the Nomination Committee also reviewed the chairmanship of each of those Board Committees. Further to the review of the general composition of the Board and its committees and the suitability assessments of those directors exercising responsibilities on the Board Committees, the Nomination Committee concluded that each director is fit and proper for their respective functions and that the Board Committees possess collectively the necessary balance of skills and experience to adequately fulfill their respective role and responsibilities.

The membership of each director in Board committees is available in section 4.3. of this report.

5. Subsequent Event

On April 1st, 2017, BNY Mellon, Luxembourg, SA has merged with BNY Mellon SA/NV. As a result of this merger, the activity of BNY Mellon, Luxembourg, SA has been integrated into the existing BNY Mellon SA/NV, Luxembourg branch and BNYM SA/NV has a seventh branch, in Milan.
The operation was a cross-border merger, on merger date BNY Mellon SA/NV issued 127,251 new shares in exchange of all assets and liabilities of BNY Mellon Luxembourg SA.

6. Proposal of Allocation of Net Income

The net profit for the year amounts to €230.85 million. Retained earnings as of the end of 2016 amount to €1,287 million.

According to Belgian company law, the legal reserve of BNY Mellon SA/NV has to be funded until it reaches at least 10% of its capital, i.e. €150 million done through annual contributions of 5% of the net income of the year. The board of directors will propose to the shareholders to approve the allocation of €9.14 million to the legal reserve for the 2016 financial year.

The Board proposes not to distribute any dividend in 2016.

Allocation of Profit	*In Mio €*
Profit of the current year	230.85

Allocation to the legal reserve	9.14
Dividend of the current year	-
Profit brought-forward	221.71

The Board has formally adopted a (non-)dividend policy by which all profits are systematically carried forward and recommended the same for approval to the shareholders' meeting. On 17 May 2011, the shareholders unanimously ratified this Board resolution. During 2016, the Board continued to apply the (non-)dividend distribution policy.

7. Contingent Liability

Claims – Legal actions
With respect to Knighthead Capital v. BNY Mellon SA/NV (Argentina Sovereign Debt Dispute), BNY Mellon SA/NV has appealed the decision of the Belgian Court. However, since all of the relief sought by the plaintiffs was essentially granted almost a year ago when Argentina settled with the holdouts, there is no reason for this case to continue. The probability of this litigation having a material impact on the financial position of BNY Mellon SA/NV is remote.

8. Research & Development

There are no research & development activities performed by BNY Mellon SA/NV.

9. Risk Management

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

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

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

Detailed information on the risks faced by BNY Mellon SA/NV, as well as our risk management strategies, policies and processes can be found in BNY Mellon SA/NV Pillar 3 report on www.bnymellon.com and in Note 27 to the consolidated financial statements.

10. Additional Information regarding BNY Mellon SA/NV

Registered Office
The Bank of New York Mellon SA/NV
Rue Montoyer 46
1000 Brussels
Belgium

Corporate Headquarters
BNY Mellon
225 Liberty Street
New York, NY 10286
United States

Statutory Auditors
KPMG – Réviseurs d'Entreprises CVBA/SCRL, B00001
Avenue du Bourget 40, 1130 Brussels, Belgium
Represented by: Kenneth Vermeire (A02157)

BOARD STATEMENT

The Board of Directors has the responsibility of establishing the annual accounts and consolidated financial statements of The Bank of New York Mellon SA/NV (BNY Mellon SA/NV) as of and for the year ended December 31, 2016 pursuant to Belgian law.

On 27 April 2017, the annual accounts and consolidated financial statements of BNY Mellon SA/NV were discussed at the Board of Directors.

The Board states that, to the best of its knowledge and in good faith, the BNY Mellon SA/NV's annual accounts and consolidated financial statements give a true and fair view of the financial position and of the results of BNY Mellon SA/NV and that the information provided does not include any omission in kind, significantly affecting the true and fair view of the annual accounts and consolidated financial statements.

The annual accounts and consolidated financial statements as of December 31, 2016 will be submitted for approval to the ordinary shareholders meeting to be held on 30 May 2017.

In 2016, there has been no decision taken by the Board, or the Executive Committee, which requires the respective application of Art. 523 and Art. 524ter of the Belgian Companies Code on conflicts of interest.

Brussels, 26 April 2017

For the Board of Directors

Olivier Lefebvre
Chairman

INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF BNY MELLON SA/NV

KPMG

Rapport du commissaire à l'assemblée générale de The Bank of New York Mellon SA pour l'exercice clos le 31 décembre 2016

Conformément aux dispositions légales, nous vous faisons rapport dans le cadre de notre mandat de commissaire. Ce rapport inclut notre rapport sur les comptes consolidés pour l'exercice clos le 31 décembre 2016, tels que définis ci-dessous, ainsi que notre rapport sur d'autres obligations légales et réglementaires.

Rapport sur les comptes consolidés - Opinion sans réserve

Nous avons procédé au contrôle des comptes consolidés de The Bank of New York Mellon SA (« la Société ») et de ses filiales (conjointement le « Groupe ») pour l'exercice clos le 31 décembre 2016, établis sur la base des normes internationales d'information financière (IFRS) telles qu'adoptées par l'Union Européenne et des dispositions légales et réglementaires applicables en Belgique. Ces comptes consolidés comprennent le bilan consolidé au 31 décembre 2016, le résultat global et autres éléments du résultat global, le tableau de passage des capitaux propres et le tableau des flux de trésorerie pour l'exercice clos à cette date, ainsi que les annexes reprenant un résumé des principales méthodes comptables et d'autres notes explicatives. Le total du bilan consolidé s'élève à 36.427.299 ('000) EUR et le résultat global et autres éléments du résultat global se solde par un profit net de l'exercice de 230.849 ('000) EUR.

Responsabilité de l'organe de gestion relative à l'établissement des comptes consolidés

L'organe de gestion est responsable de l'établissement de comptes consolidés donnant une image fidèle conformément aux normes internationales d'information financière (IFRS) telles qu'adoptées par l'Union Européenne et des dispositions légales et réglementaires applicables en Belgique, ainsi que de la mise en place du contrôle interne que l'organe de gestion estime nécessaire pour permettre l'établissement de comptes consolidés ne comportant pas d'anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs.

Responsabilité du commissaire

Notre responsabilité est d'exprimer une opinion sur ces comptes consolidés sur la base de notre contrôle. Nous avons effectué notre contrôle selon les normes internationales d'audit (ISA) telles qu'adoptées en Belgique. Ces normes requièrent de notre part de nous conformer aux exigences déontologiques, ainsi que de planifier et de réaliser l'audit en vue d'obtenir une assurance raisonnable que les comptes consolidés ne comportent pas d'anomalies significatives.

Un audit implique la mise en œuvre de procédures en vue de recueillir des éléments probants concernant les montants et les informations fournis dans les comptes consolidés. Le choix des procédures mises en œuvre, y compris l'évaluation du risque que les comptes consolidés comportent des anomalies significatives, que celles-ci proviennent de fraudes ou résultent d'erreurs, relève du jugement du commissaire.

En procédant à cette évaluation des risques, le commissaire prend en compte le contrôle interne relatif à l'établissement par la Société de comptes consolidés donnant une image fidèle, cela afin de définir des procédures d'audit appropriées selon les circonstances, et non dans le but d'exprimer une opinion sur l'efficacité du contrôle interne du Groupe. Un audit consiste également à apprécier le caractère approprié des méthodes comptables retenues, le caractère raisonnable des estimations comptables faites par l'organe de gestion ainsi qu'à apprécier la présentation d'ensemble des comptes consolidés.

Nous avons obtenu de l'organe de gestion et des préposés de la Société, les explications et informations requises pour notre contrôle.

Nous estimons que les éléments probants recueillis sont suffisants et appropriés pour fonder notre opinion sans réserve.

Opinion sans réserve

A notre avis, les comptes consolidés donnent une image fidèle du patrimoine et de la situation financière consolidée du Groupe au 31 décembre 2016, ainsi que de ses résultats consolidés et de ses flux de trésorerie consolidés pour l'exercice clos à cette date, conformément aux normes internationales d'information financière (IFRS) telles qu'adoptées par l'Union Européenne et aux dispositions légales et réglementaires applicables en Belgique.

Rapport sur d'autres obligations légales et réglementaires

L'organe de gestion est responsable de l'établissement et du contenu du rapport de gestion sur les comptes consolidés.

Dans le cadre de notre mandat et conformément à la norme belge complémentaire aux normes internationales d'audit applicables en Belgique, notre responsabilité est, à tous égards significatifs, de vérifier le respect de certaines obligations légales et réglementaires. Sur cette base, nous faisons la déclaration complémentaire suivante, qui n'est pas de nature à modifier la portée de notre opinion sur les comptes consolidés:

— Le rapport de gestion sur les comptes consolidés traite des mentions requises par la loi, concorde avec les comptes consolidés et ne présente pas d'incohérences significatives par rapport aux informations dont nous avons eu connaissance dans le cadre de notre mandat.

Bruxelles, le 23 mai 2017

KPMG Réviseurs d'Entreprises
Commissaire
représentée par

Kenneth Vermeire
Réviseur d'Entreprises

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2016 In € '000	2015 In € '000
Interest income	2	211,767	177,126
Interest expense	2	(124,880)	(99,063)
Net interest income		86,888	78,063
Fee and commission income	3	715,726	770,685
Fee and commission expense	3	(318,386)	(340,165)
Net fee and commission income		397,339	430,519
Gains /(losses) on non-qualifying economic hedges	4	92,165	46,710
Other operating income	5	8,450	6,361
Total operating income		**584,843**	**561,653**
Personnel expenses	6	130,749	131,810
Depreciation of Property and Equipment	15	5,466	3,117
Amortization of Intangible assets (other than goodwill)	16	8,103	10,346
Provisions	19	5,219	6,915
Other operating expenses	7	124,840	88,232
Total operating expenses		**274,377**	**240,420**
Profit before tax from continuing operations[5]		**310,466**	**321,233**
Tax expense (income) related to profit or (loss) from continuing operations	8	79,616	57,437
NET PROFIT FOR THE YEAR[6]		**230,849**	**263,797**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement gains /(losses) on defined benefit plans	21.2	(6,979)	5,900
Related tax	8.2	1,693	(1,920)
		(5,285)	**3,980**
Items that may be reclassified subsequently to profit or loss			
Fair value reserve (available-for-sale financial assets)			
Net change in fair value		27,449	(2,033)
Net amount transferred to profit and loss		(6,569)	(3,650)
Related tax	8.2	(8,664)	967
		12,216	(4,717)
Other comprehensive income for the year, net of tax		6,930	(737)
Total comprehensive income for the year, net of tax		**237,780**	**263,060**

The accompanying notes are an integral part of these consolidated financial statements.

[5] BNY Mellon SA/NV has no discontinued operations; accordingly, no profit or loss allocated to discontinued operations has been presented on the face of the consolidated statement of profit and loss and other comprehensive income.

[6] All net profit is attributable to the equity holders of the parent.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2016 In € '000	2015 In € '000
ASSETS			
Cash and cash balances with central banks	9	10,895,789	11,656,148
Derivative financial instruments	13	218,715	225,221
Loans and advances to customers	10	10,368,423	7,899,664
Investment securities	11	14,022,590	14,781,373
Current tax assets	8	16,092	29,120
Other assets	14	327,389	234,877
Property and equipment	15	5,884	10,868
Deferred tax assets	8	756	54
Goodwill and other intangible assets	16	571,662	579,552
TOTAL ASSETS		**36,427,299**	**35,416,878**
LIABILITIES			
Derivative financial instruments	13	261,428	256,978
Deposits by central banks	17	277,914	362,179
Deposits by financial institutions	17	32,349,903	31,480,609
Deposits by non-financial institutions	17	6,030	24,833
Subordinated liabilities	17	354,950	358,837
Other financial liabilities	17	-	56,834
Current tax liabilities	8	25,364	29,686
Other liabilities	18	188,884	130,468
Provisions	19	7,209	5,282
Deferred tax liabilities	8	23,374	18,355
TOTAL LIABILITIES		**33,495,055**	**32,724,062**
EQUITY			
Issued capital	22	1,508,654	1,508,654
Share premium	22	33,333	33,333
Retained earnings		1,287,455	1,056,605
Other reserves		102,802	94,224
TOTAL EQUITY		**2,932,244**	**2,692,816**
TOTAL LIABILITIES AND EQUITY		**36,427,299**	**35,416,878**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of BNY Mellon SA/NV				
	Issued capital	**Share premium**	**Retained earnings**	**Other reserves**	**Total equity**
	In '000 €	**In '000 €**	**In '000 €**	**In '000 €**	**In '000 €**
At 1 January 2015	**1,508,654**	**33,333**	**792,808**	**93,436**	**2,428,231**
Profit/loss for the year	-	-	263,797	-	263,797
Other comprehensive income, net of tax					
Remeasurement gains/(losses) on defined benefit plans	-	-	-	5,900	5,900
Fair value reserve (available-for-sale financial assets)					
Net change in fair value	-	-	-	(2,033)	(2,033)
Net amount transferred to profit and loss	-	-	-	(3,650)	(3,650)
Tax on other comprehensive income	-	-	-	(954)	(954)
Total other comprehensive income	-	-	-	(737)	(737)
Total comprehensive income	-	-	**263,797**	**(737)**	**263,060**
Share-based payments (Note 24)	-	-	-	1,525	1,525
Transactions with owners	**-**	**-**	**-**	**1,525**	**1,525**
At 31 December 2015	**1,508,654**	**33,333**	**1,056,605**	**94,224**	**2,692,816**
Total comprehensive income					
Profit/loss for the year	-	-	230,849	-	230,849
Other comprehensive income, net of tax					
Remeasurement gains /(losses) on defined benefit plans	-	-	-	(6,979)	(6,979)
Fair value reserve (available-for-sale financial assets)					
Net change in fair value	-	-	-	27,449	27,449
Net amount transferred to profit and loss	-	-	-	(6,569)	(6,569)
Tax on other comprehensive income	-	-	-	(6,970)	(6,970)
Total other comprehensive income	-	-	-	6,930	6,930
Total comprehensive income	-	-	**230,849**	**6,930**	**237,780**
Share-based payments (Note 24)	**-**	**-**	**-**	1,648	1,648
Transactions with owners	-	-	-	**1,648**	**1,648**
At 31 December 2016	**1,508,654**	**33,333**	**1,287,455**	**102,802**	**2,932,244**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2016	2015
		In € '000	**In € '000**
Cash Flows from operating activities			
Net Profit (Loss) for the year		230,849	263,797
Adjustments for:		36,059	(14,465)
Net interest income	2	(86,888)	(78,063)
Current and deferred tax expenses	8	79,616	57,437
Depreciation and amortization	15,16	13,569	13,463
Provisions		5,219	6,915
Other[7]		24,543	(9,804)
Changes in:			
Monetary reserves		(16,842)	68,293
Loans and receivables		2,468,759	(6,340,867)
Investment securities		(758,783)	1,442,762
Derivative financial instruments		(6,506)	(155,185)
Other assets		92,512	(2,355)
Advances from central banks		(84,265)	(658,932)
Deposits from credit institutions		865,407	1,327,726
Deposits (other than credit institutions)		(18,802)	(69,249)
Financial liabilities held for trading		4,449	(111,996)
Other financial liabilities		(56,834)	(85,369)
Other liabilities		58,416	(36,852)
Interest received		211,767	177,126
Interest paid		(124,880)	(99,063)
Income taxes refunded (paid)		(87,763)	(44,265)
Net cash used in operating activities		**(744,735)**	**5,640,224**
INVESTING ACTIVITIES			
Purchase of tangible assets		(464)	(1,342)
Disposal of intangible and tangible assets		2,181	8,412
Purchase of intangible assets		(499)	(16,867)
Other cash payments related to investing activities			-
Net cash used in investing activities		**1,218**	**(9,797)**
FINANCING ACTIVITIES			
Other cash proceeds related to financing activities		-	-
Net cash used in financing activities		**-**	**-**

[7] Other mainly includes non-cash transactions

Net increase/decrease in cash and cash equivalents		**(743,517)**	**5,630,427**
Cash and cash equivalents at beginning of the period		11,392,646	5,762,219
Effect of exchange rate fluctuations on cash and cash equivalents[8]			
Cash and cash equivalents at the end of the period	**9**	**10,649,129**	**11,392,646**
Components of cash and cash equivalents:			
Cash and cash balances with central banks[9]		10,649,129	11,392,646

The accompanying notes are an integral part of these consolidated financial statements.

[8] Cash and Cash balances with central banks are mainly invested in Euro.

[9] Cash and cash balances with central banks does not contain monetary reserves amount as compared to Note 9.

SIGNIFICANT ACCOUNTING POLICIES

1. Significant Accounting Policies

1.1. Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that have been measured at fair value. The consolidated financial statements are presented in Euro (€) and all values are rounded to the nearest € Thousand, except where otherwise indicated.

Statement of compliance

The consolidated financial statements of The Bank of New York Mellon SA/NV, its branches and subsidiaries (hereinafter “BNY Mellon SA/NV”) have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS).

Presentation of consolidated financial statements

The consolidated financial statements provide comparative information in respect of the previous period. BNY Mellon SA/NV presents its consolidated statement of financial position broadly in order of liquidity.

1.2. Basis of Consolidation

The consolidated financial statements comprise the financial statements of BNY Mellon SA/NV and its subsidiaries as at and for the year ended 31 December 2016. The individual financial statements of BNY Mellon SA/NV’s subsidiaries are prepared for the same reporting year as BNY Mellon SA/NV. The accounting policies of subsidiaries are consistent with those of the parent.

Subsidiaries are consolidated from the date on which control is transferred to BNY Mellon SA/NV until the date BNY Mellon SA/NV ceases to control the subsidiary. Control is achieved when BNY Mellon SA/NV is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, BNY Mellon SA/NV controls an investee if, and only if, BNY Mellon SA/NV has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The existence and the effect of potential voting rights that are currently exercisable or convertible are considered when assessing the control of BNY Mellon SA/NV over another entity. BNY Mellon SA/NV re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The results of subsidiaries acquired or disposed of during a financial year are included in the consolidated statement of profit and loss and other comprehensive income from the date of acquisition or up to the date of disposal. All intra-group balances and transactions between

BNY Mellon SA/NV's entities and gains and losses there from are eliminated in full on consolidation.
No non-controlling interests are presented in the consolidated financial statements since BNY Mellon SA/NV owns 100% of each its subsidiaries' issued share capital.

1.3. Use of Significant Accounting Judgments, Estimates and Assumptions

In the process of applying BNY Mellon SA/NV's accounting policies, management makes many estimates and judgments:

Estimates and assumptions

The key areas in which changes to management's assumptions concerning future economic and market conditions, and other key sources of estimation uncertainty at the reporting date, have a significant risk of affecting the carrying amounts of assets and liabilities within the next financial year, are described below. BNY Mellon SA/NV bases its assumptions and estimates on conditions existing and information available when the consolidated financial statements are prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of BNY Mellon SA/NV. Such changes are reflected in the assumptions when they occur.

Going concern

BNY Mellon SA/NV's business activities, together with the factors likely to affect its future development, performance and position are set out in the Board of Directors' report. In addition, the explanatory notes, which includes BNY Mellon SA/NV's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit and liquidity risk, are an integral part of the consolidated financial statements.

BNY Mellon SA/NV's management performs an annual going concern review that considers, under a stress test scenario, BNY Mellon SA/NV's ability to meet its financial obligations as they fall due, for a period of at least twelve months after the date that the consolidated financial statements are approved by the Board of Directors.

Based on the above assessment of BNY Mellon SA/NV's financial position, liquidity and capital, the management has concluded that BNY Mellon SA/NV has adequate resources to continue in operational existence for the foreseeable future defined as a period of at least twelve months after the date that the annual accounts are approved. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon BNY Mellon SA/NV's ability to continue as a going concern. Accordingly, the consolidated financial statements are prepared using the going concern basis of accounting.

Impairment losses on loans and advances

BNY Mellon SA/NV reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recognized in the consolidated statement of profit and loss and other comprehensive income.

A loan will be impaired if it meets impairment triggers deriving from objective evidence of debtor's or instrument's deterioration. This impairment assessment is based on assumptions about the timing and amount of future cash flows and actual results may differ resulting from future changes. Impairment losses on loans and advances are disclosed in more detail in the explanatory notes.

Impairment of available-for-sale investments

BNY Mellon SA/NV reviews its debt securities classified as available-for-sale and held to maturity investments at each reporting date to assess whether they are impaired. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the existence and extent of any impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Retirement benefit plan

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using an actuarial valuation. The actuarial calculation involves making assumptions about factors, including the discount rate, future salary increases, inflation and mortality rates. Due to the long–term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. See explanatory notes for discussion of assumptions used.

Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to one cash-generating unit (CGU), which is BNY Mellon SA/NV as a whole. This decision is based on the commercial, operational and financial interconnectedness within BNY Mellon SA/NV Asset Servicing business that clearly demonstrate that cash flows generated out of BNY Mellon SA/NV entities and businesses are inter-dependent. There is a mutual interdependency for access to global markets, service delivery and operations by use of shared services, IT platforms and infrastructure as well as BNY Mellon SA/NV dependency towards the BNY Mellon Group for the customer sourcing and relationship management that are carried out on a global basis. Furthermore, strategic management decisions are taken by the Board of BNY Mellon SA/NV at the consolidated level before being implemented in the various entities.

The recoverable amount for BNY Mellon SA/NV used in the goodwill impairment exercise has been calculated based on the higher of the fair value less cost to sell or value in use. BNY Mellon SA/NV identified value in use as being the recoverable amount of a CGU, which is determined by discounting the future cash flows expected to be generated by the business. The calculation of the value in use is based on certain key assumptions. In the framework of the impairment testing, these key assumptions have been stressed as part of a sensitivity analysis to determine the impact on goodwill valuation in case of unfavorable changes. The effect of such stress testing has been determined to be insignificant, resulting in no change to the carrying amount. The key assumptions are disclosed in detail in the explanatory notes.

1.4. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year. The following new and amended IFRS and IFRIC interpretations were considered by BNY Mellon SA/NV, these being endorsed by European Union in 2015 and 2016 and effective for annual periods beginning on or after 1 January 2016.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Since BNY Mellon SA/NV is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 1: Disclosure Initiative

The amendments clarify, among other matters, the materiality requirements in IAS 1 and allow the flexibility as to the order the explanatory notes are presented. These are applied for the annual period as of 1 January 2016, but their impact is negligible.

Annual Improvements 2012-2014 Cycle

In September 2014, the IASB issued a number of amendments to different standards, which included amendments to IFRS 5 Non-Current Assets held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting. BNY Mellon SA/NV applies the amendments that are applicable.

The following amendments effective and endorsed by EU are not relevant to BNY Mellon SA/NV and have no impact on BNY Mellon SA/NV's consolidated financial statements:
-Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
-Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
-Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization
-Amendments to IAS 27: Equity Method in Separate Financial Statements
-Amendments to IFRS 10, IFRS 12 and IFRS 28: Investment Entities – Applying the Consolidation Exception (endorsed in September 2016)

1.5. Forthcoming Changes in IFRS

BNY Mellon SA/NV will apply the new or revised IFRS standards and related annual improvements detailed below as from their effective date following the endorsement process by the European Commission.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of *IFRS 9 Financial Instruments* which reflects all phases of the financial instruments project and replaces *IAS 39 Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard was endorsed by the European Union on 22 November 2016. IFRS 9 introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

BNY Mellon SA/NV currently is assessing the potential impact as part of its IFRS 9 projects deployed in 2016. BNYM SA/NV plans to adopt the new standard when mandatorily effective.
Analysis of the application of the classification and measurement requirements of the standard was completed in December 2016. Overall, the results show no impact from those

requirements on the measurement of in-scope financial instruments for BNY Mellon SA/NV. An IFRS 9 impairment project currently is being implemented, leveraging BNY Mellon group's credit impairment project. Preliminary analysis of the application of IFRS 9 to BNY Mellon SA/NV has identified investment securities as the most potentially significant area of impact from the new impairment model. A preliminary analysis of the impact of the IFRS 9 impairment model on the securities portfolio was performed using a simplistic approach with external data and assumptions. The results of that assessment showed an insignificant impairment impact of accounting value of the portfolio based on applying both a 12 month and a lifetime expected credit loss respectively to the entirety of the portfolio. Next steps include determining the transfer criteria between different stages of the IFRS 9 impairment model, developing appropriate internal models and assessing the impact on other products. Such impact is expected to be less than that for investment securities due to the relative short tenure of our other financial assets.

IFRS 15 Revenue from Contracts with Customers
Clarifications to IFRS 15

IFRS 15 *Revenue from Contracts with Customers* was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. The standard was endorsed by the European Union on 22 September 2016. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

BNY Mellon SA/NV currently is assessing the impact of IFRS 15 and plans to adopt the new standard when effective. Preliminary accounting impact analysis, including contract reviews and disclosure requirements has been performed . No significant areas of impact to BNY Mellon SA/NV revenue recognition policies were identified where changes may occur from applying new rules. Preparation of new disclosures is in progress.

IFRS 16 Leases

IFRS 16 will require the lessee to account for all leases under a single on balance sheet model in a similar way to finance leases under IAS 17. Enhanced disclosures will be required as well. Lessor accounting remains substantially unchanged compared to accounting under current IAS 17. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2019 with early adoption permitted but not before IFRS 15 is applied.

BNY Mellon SA/NV currently is assessing the impact of IFRS 16 and plans to adopt the new standard when effective and endorsed by EU. A group wide Leases project is currently underway that has prioritized: leasing inventory identification, analysis of existing technology and reporting process and review of existing vendors. A high level impact assessment has been performed. Upon adoption, the implementation of the leasing standard is expected to result in an immaterial increase in both assets and liabilities.

Next steps include identification and review of lease agreements and collection of interim leasing data for implementation reporting.

Amendments to IAS 7: Disclosure initiative (issued on 29 January 2016)

Part of the IASB's Disclosure Initiative, these amendments require disclosures about changes in the entity's liabilities arising from financing activities, including cash flows and non –cash flows changes. Application is required for annual periods beginning on or after 1 January 2017 with no prior year comparative information required and an early adoption permitted.

BNY Mellon SA/NV currently is assessing the impact of the amendments and plans to adopt the new standard when effective and endorsed by EU, however their impact is currently estimated to be negligible.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)

Application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. BNY Mellon SA/NV currently is assessing the impact of the amendments and plans to adopt the new standard when effective and endorsed by EU, however their impact is currently estimated to be negligible.

The following amendments are not relevant to BNY Mellon SA/NV and are expected to have no impact on BNY Mellon SA/NV's consolidated financial statements:
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle (issued on 8 December 2016)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (issued on 19 January 2016) as BNY Mellon SA/NV does not have debt instruments measured at fair value.
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)
-IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations (issued on 8 December 2016)
-Amendments to IFRS 4: Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts (issued on 12 September 2016)

1.6. Summary of Accounting Policies and Disclosures

1.6.1. Foreign Currency Translation

The consolidated financial statements are presented in Euro (€). Items included in the financial statements of each of BNY Mellon SA/NV's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"), which is Euro for all BNY Mellon SA/NV's entities.

Translations of transactions and balances

Foreign currency transactions are converted into the functional currency using the spot rate of the exchange rate prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, as well as the gains and losses from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in "Other operating income/expenses" in the consolidated statement of profit and loss and other comprehensive income.

BNY Mellon SA/NV has no non-monetary items that are measured at historical cost in a currency other than Euro.

1.6.2. Recognition of Revenue and Expense

Revenue is recognized to the extent that it is probable that the economic benefits will flow to BNY Mellon SA/NV and the revenue can be reliably measured, regardless of when the payment is being made. Income and expense are not offset in the consolidated statement of profit and loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of BNY Mellon SA/NV. The following specific recognition criteria must also be met before revenue is recognized.

1.6.2.1. Net Income Interest

The interest income and expense is recognized using the effective interest rate (EIR) method for all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Due to the low interest environment, the interests on some deposits at the European Central Bank or other central banks has become negative since 2014, as well as certain government securities were issued with a negative yield. BNY Mellon SA/NV has recognized the negative interest on financial assets as interest expense and reported it as part of “Interest expense” line in the consolidated statement of profit and loss and other comprehensive income. Conversely, negative interest charged to clients on financial liabilities has been recognized and reported as “Interest Income”.

Once the value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

BNY Mellon SA/NV’s loans to, and deposits from, banks and customers primarily relate to BNY Mellon SA/NV’s clients' cash accounts operated in connection with their securities settlement activity, with balances generally changing on a daily basis. Time deposits and the re-deposits of surplus funds rarely have maturities of more than three months and, accordingly, the EIR method generally is not used for such transactions.

Interest income and expense on derivative instruments are recorded in profit and loss on an accrual basis.

1.6.2.2. Fees and Commission Income

BNY Mellon SA/NV earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management and advisory fees.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition or clearing of shares and/or other financial instruments or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to performance are recognized at settlement date of the transaction when fulfilling the performance criteria.

1.6.2.3. Dividend Income

Dividend income is recognized when BNY Mellon SA/NV's right to receive payment is established.

1.6.2.4. Gains and Losses on Non Qualifying Economic Hedges

All gains and losses from changes in fair value of derivative financial assets and liabilities that act as economic hedges but that do not qualify for hedge accounting treatment are recognized in this caption.

1.6.3. Financial Instruments – Initial Recognition and Subsequent Measurement

All financial assets and liabilities initially are recognized on the trade date, i.e., the date that BNY Mellon SA/NV becomes a party to the contractual provisions of the instrument, and are measured initially at their fair value plus transaction costs. The classification of financial instruments at initial recognition depends on management's intent for which the financial instruments were acquired and the characteristics of the instruments, as explained below.

1.6.3.1. Derivative Financial Instruments Held for Trading

BNY Mellon SA/NV uses derivatives such as currency swaps. Derivatives are recognized in the statement of the financial position at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized in the "Gains and losses on non-qualifying economic hedges".

BNY Mellon SA/NV engages in currency swaps with its clients, on behalf of its clients in the context of their operational activities. These derivatives are backed-to-back with the London Branch of BNY Mellon Group to neutralize currency risk for BNY Mellon SA/NV.
BNY Mellon SA/NV does not hold derivatives embedded in other financial instruments.

1.6.3.2. Investment Securities

1.6.3.2.1 Available-for-sale Financial Instruments

Available-for-sale financial instruments include only debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions (e.g., debt component of the liquid asset buffer). BNY Mellon SA/NV has not classified any loans or receivables as available-for-sale.

After initial recognition, available-for-sale financial instruments are subsequently measured at fair value.

Unrealized gains and losses are recognized in other comprehensive income, with cumulative gains and losses recognized in the 'Other reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the consolidated statement of profit and loss and other comprehensive income in 'Other operating income'. When BNY Mellon SA/NV holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. The losses arising from impairment of such investments are recognized in the consolidated statement of profit and loss and other comprehensive income in 'Impairment losses on financial investments' and removed from the 'Other reserve'.

1.6.3.2.2 Held to Maturity Financial Instruments

Securities classified as held to maturity include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that BNY Mellon SA/ NV has both the intention and ability to hold to maturity. An investment is not classified as a held to maturity if BNY Melon SA/NV has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. The classification of investment securities held to maturity is determined at their initial recognition.

Investment securities held to maturity are measured at amortized cost less impairment, with interest (including any premium or discount on acquisition) being recognised in income using the effective interest method (EIR). The amortization is included in 'Interest and similar income' in the consolidated statement of profit and loss and other comprehensive income. Any losses arising from impairment are recognized in the consolidated statement of profit and loss and other comprehensive income in 'Credit loss expenses' a caption that is part of 'Net Operating Income'. No impairment losses were recognized in 2016 and 2015.

1.6.3.3. Loans and Advances to Customers

Loans and advances to customers refer to non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that BNY Mellon SA/NV intends to sell immediately or in the near term and those that BNY Mellon SA/NV upon initial recognition designates as at fair value through profit or loss;
- Those that BNY Mellon SA/NV, upon initial recognition, designates as available for sale; or
- Those for which BNY Mellon SA/NV may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and advances to customers include certificate of deposits, loans to central governments, credit institutions as well as corporate clients.

A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

After initial recognition at fair value, loans and advances to customers subsequently are measured at amortized cost using the EIR, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the consolidated statement of profit and loss and other comprehensive income. Any losses arising from impairment are recognized in the consolidated statement of profit and loss and other comprehensive income in 'Credit loss expenses' a caption that is part of 'Net Operating Income'. No significant impairment was recognized in 2016 and 2015.

1.6.3.4. Financial Liabilities Measured at Amortized Cost

BNY Mellon SA/NV classifies its financial liabilities as measured at amortized cost using the EIR, except derivative financial instruments that are measured at fair value. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

These comprise deposits by credit institutions, amounts due to customers, subordinated and other financial liabilities presented on the face of the consolidated statement of financial position.

1.6.3.5. Reclassification of Financial Assets

BNY Mellon SA/NV may reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recognized in equity is recycled to the consolidated statement of profit and loss and other comprehensive income.

Reclassification is at the discretion of management, and is determined on an instrument by instrument basis. BNY Mellon SA/NV does not reclassify any financial instruments into the fair value through profit and loss category after initial recognition. In 2016 BNY Mellon SA/NV has not recorded any reclassifications of financial assets.

1.6.4. Derecognition of Financial Assets and Financial Liabilities

1.6.4.1. Financial Assets

BNY Mellon SA/NV derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- The rights to receive cash flows from the asset have expired; or
- BNY Mellon SA/NV has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement where either
  - BNY Mellon SA/NV has transferred substantially all the risks and rewards of the asset, or
  - BNY Mellon SA/NV has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

BNY Mellon SA/NV has not derecognized any financial assets in 2016.

1.6.4.2. Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

1.6.5. Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated statement of financial position as BNY Mellon SA/NV retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within ‘Financial liabilities at amortized cost’, reflecting the transaction’s economic substance as a loan to BNY Mellon SA/NV. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the consolidated statement of financial position. The consideration paid, including accrued interest, is recognized in the consolidated statement of financial position, within ‘Loans and advances to customers’, reflecting the transaction’s economic substance as a loan by BNY Mellon SA/NV. The difference between the purchase and resale prices is recognized in “Net interest income” and is accrued over the life of the agreement using the EIR.

1.6.6. Financial guarantees received

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

In 2016 BNY Mellon SA/NV, as a holder, has entered into a number of financial guarantee agreements, such as letters of credit received from group entity or third party, to cover its large exposures for prudential reporting purposes. These guarantees are recorded in the off balance sheet and recorded at their notional amount. Please see note 25.3 for further details.

1.6.7. Determination of Fair Value

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. A three-level hierarchy for fair value measurements is utilized based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Fair value focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The fair value for financial instruments traded in active markets at the consolidated statement of financial position date is based on their quoted market price, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

BNY Mellon SA/NV has only level 1 and level 2 financial instruments. As such BNY Mellon SA/NV does not use any internal valuation models with unobservable data for the determination of the fair value.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in the explanatory notes.

1.6.8. Impairment of Financial Assets

BNY Mellon SA/NV assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

1.6.8.1. Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost (such as loans and advances to customers and held to maturity financial assets), BNY Mellon SA/NV assesses individually whether objective evidence of impairment exists for financial assets that are individually significant. BNY Mellon SA/NV does not make any collective assessment for impairment, as its holdings of financial assets are considered to be individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of profit and loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The present value of the estimated future cash flows is discounted at the financial asset’s original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to

BNY Mellon SA/NV. If, in a period subsequent to recognition of an impairment loss, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to ’Credit loss expense’.

1.6.8.2. Available-for-sale Financial Assets

BNY Mellon SA/NV assesses the debt instruments classified as available-for-sale on an individual basis, whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of profit and loss and other comprehensive income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated statement of profit and loss and other comprehensive income, the impairment loss is reversed through the consolidated statement of profit and loss and other comprehensive income.

1.6.9. Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

1.6.10 Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset(s). This assessment is made at inception.

Leases that do not transfer to BNY Mellon SA/NV substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the consolidated statement of profit and loss and other comprehensive income on a straight line basis over the lease term. Contingent rentals payable are recognized as an expense in the period in which they are incurred.

BNY Mellon SA/NV was not acting as lessor on any leasing contracts.

1.6.11. Cash and Cash Equivalents

Cash and cash equivalents as referred to in the consolidated statement of financial position include notes and coins on hand, balances held with central banks and loans and advances with credit institutions and customers, on demand or with an original maturity of three months or less, which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

1.6.12. Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to the residual value over the estimated useful life as follows:

Long leasehold property	-	40 years
Leasehold improvements	-	Over the lesser of the estimated useful life of the asset and the remaining term of the lease
Motor vehicles	-	4 years
Furniture, fixtures and other equipment	-	4 to 10 years

The estimated useful life of property and equipment is reviewed and, in case of revision, depreciation is adjusted prospectively. Property and equipment is derecognized on disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in ‘Other operating income’ or ‘Other operating expense’ in the consolidated statement of profit and loss and other comprehensive income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. There are no restrictions on title, and none of the property or equipment is pledged.

1.6.13. Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring costs) of the acquired business, generally at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the consolidated statement of profit and loss and other comprehensive income in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized, but is reviewed for impairment at least once a year or if events or changes in circumstances indicate that the carrying value may be impaired.

An impairment loss is recognized if the carrying amount of the cash-generating unit to which the goodwill belongs exceeds its recoverable amount. Impairment losses relating to goodwill are not reversed in future periods.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statement of profit and loss and other comprehensive income.

1.6.14. Intangible Assets other than Goodwill

BNY Mellon SA/NV's intangible assets other than goodwill include the value of computer software and client contracts. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to BNY Mellon SA/NV.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their estimated useful life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization of intangible assets is included as a separate expense line 'Amortization of intangible assets (other than goodwill)' in the statement of profit and loss and other comprehensive income.

Amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software	-	3 to 5 years
Client contracts (customer lists)	-	10 to 25 years

BNY Mellon SA/NV has no intangible assets other than goodwill with an indefinite useful life.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of profit and loss and other comprehensive income when the asset is derecognized.

1.6.15. Impairment of Non-Financial Assets

BNY Mellon SA/NV assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, BNY Mellon SA/NV estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash-generating units (CGUs) or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level at which the goodwill is monitored for internal management purposes. As explained in the chapter 1.3 above, BNY Mellon SA/NV has determined that the CGU is to be defined as BNY Mellon SA/NV itself.

BNY Mellon SA/NV identified value in use as being the recoverable amount of a cash-generating unit (CGU) in 2016. In assessing value in use of a CGU, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For previously-impaired assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, BNY Mellon SA/NV estimates the asset’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of profit and loss and other comprehensive income in the period in which it arises.

1.6.16. Pension Benefits

1.6.16.1. Defined Benefit Plan

BNY Mellon SA/NV operated four defined benefit plans during the year. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service and salary. A valuation by a qualified independent actuary is carried out every year for each of the plans.

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the Projected Unit Credit Method. The discount rates used in the actuarial valuations are based on rates of high quality (generally those rated “AA” and above) corporate bonds issued in the same country as the obligation, that have maturity dates approximating the terms of BNY Mellon SA/NV's obligations.

Remeasurements, comprising of actuarial gains and losses, experience gains and (losses) on obligations and return on plan assets excluding interest income, are recognized immediately in other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

BNY Mellon SA/NV determines the net interest for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit obligation (asset).

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of any net asset is restricted to the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. An economic benefit is available to BNY Mellon SA/NV if it is realizable during the life of the plan or on settlement of the plan liabilities.

1.6.16.2. Defined Contribution Plan

BNY Mellon SA/NV also operates four defined contribution plans. The contributions payable to those plans are recognized as an expense under ‘Personnel expenses’ when they fall due. Unpaid contributions are recorded as a liability.

1.6.17. Provisions

Provisions are recognized when BNY Mellon SA/NV has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of profit and loss and other comprehensive income net of any reimbursement.

Restructuring provisions

Restructuring provisions are recognized only when BNY Mellon SA/NV has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, an estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan’s main features.

1.6.18. Share-Based Payments

Employees (including senior executives) of BNY Mellon SA/NV receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (‘equity-settled transactions’). Equity instruments granted are shares and options over shares of The Bank of New York Mellon Corporation, thus forming part of group share based payment arrangements.

BNY Mellon SA/NV uses a lattice-based binomial method to calculate the fair value of options on the date of the grant. Stock units are valued based on the quoted price of the relevant stock at grant date.

The cost of equity-settled transactions is recognized, together with a corresponding credit to in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (‘the vesting date’). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and BNY Mellon SA/NV’s best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period is recognized in ‘Personnel expenses’ and represents the movement in cumulative expense recognized as at the beginning and end of that period.

When the terms of an equity-settled award are modified, the minimum expense recognized in ‘Personnel expenses’ is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. The entity shall recognize the incremental fair value granted if the modification increases the fair value of the instruments granted, or the fair value of additional equity instruments granted, if the modification increases the number of equity instruments.

When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

All other long term and post-employment benefits are recognized under the "personnel expenses" caption.

1.6.19. Taxes

1.6.19.1. Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where legal entities of BNY Mellon SA/NV operate.

1.6.19.2. Deferred Tax

Deferred tax is recognized on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Current tax and deferred tax relating to items recognized outside profit or loss are similarly recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1.6.19.3. Sales Tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or expensed, as applicable
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

1.6.20. Dividends on Ordinary Shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by BNY Mellon SA/NV's shareholders. Dividends for the year that are approved after the reporting date are disclosed as a subsequent event.

1.6.21. Equity Reserves

The reserves recorded in equity of BNY Mellon SA/NV include:

- Retained earnings comprising the accumulated profit and loss and
- 'Other' reserve which comprises: (i) the impact of the share based payment, (ii) changes in fair value of available-for-sale investments and (iii) net gain (loss) on actuarial gains or losses from the defined benefit pension plans, including tax effects thereon.

1.6.22. Segment Reporting

Segment disclosures are required for entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market. This is not the case for BNY Mellon SA/NV. As a result, BNY Mellon SA/NV does not report an operating segment reporting by business nor by geographic market.

1.6.23. Assets Under Custody

Assets Under Custody are reported in accordance with Belgian Customer Asset Protection rules (Circulaire PPB-2007-7). In 2016, a new approach has been put into production for the determination of the amount of Assets Under Custody. This new approach consists of an allocation of each security in custody to the contracting entity / sub-custodian, whereas in the past a proxy was determined based on specific criteria. This change (from an estimation to a line-by-line allocation) improves the accuracy of Assets under Custody and led to increased precision and to a reduction of 4% in the total amount reported.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Net Interest Income

Interest income

	2016	2015
	in € '000	**in € '000**
Cash and cash balances with central banks	-	-
Investment securities	101,141	95,741
Loans and advances to customers	55,906	59,795
Interest income on liabilities	54,720	21,590
Total	**211,767**	**177,126**

Interest expense		2015
		in € '000
Deposits from credit institutions	40,697	39,481
Deposits from other financial institutions	5,116	4,954
Deposits from non-financial institutions	2	-
Subordinated loans	30,199	30,187
Interest expense on assets	48,866	24,440
Total	**124,880**	**99,063**

Net interest income	**86,888**	**78,063**

The net interest income has presented a slight increase of €8.8 Mio compared to last year despite the difficult environment with historically low interest rates. This increase resulted mainly from the interest income earned from the fixed income securities portfolio that has continued to increase thanks to a change in BNY Mellon SA/NV investment strategy launched in the past years. The increase in the gross margin is smoothened by a converse effect equally impacting the intercompany interest income and expense side of the consolidated statement of profit and loss and other comprehensive income mainly due to reduced intercompany placements and deposits.

In 2016 BNY Mellon SA/NV continued charging negative interest rate to clients, hence better reflecting the cost of maintaining Euro deposits. Interest income on liabilities line shows the negative interest charged to the clients, where appropriately, by BNYM Mellon SA/NV and the interest expense on assets line presents negative interest charged by central banks.

3. Net Fee and Commission Income

	2016	2015
	In € '000	**In € '000**
Fee and commission income		
Global Custody	479,531	515,442
Securities Lending	-	3,673
Depotbank Services	12,402	13,065
Institutional Accounting	6,891	8,389
American Depositary Receipt	72,234	81,236
Servicing, processing and support fees re-charged	81,358	75,106
Foreign exchange commissions	48,337	64,552
Other	15,073	9,222
Total fee and commission income	715,726	770,685
Fee and commission expenses		
Custody	173,083	183,623
Clearing and settlement	286	189
Servicing, processing and support fees re-charged	120,067	129,148
Other	24,951	27,205
Total fee and commission expense	318,386	340,165
Net fee and commission income	**397,339**	**430,519**

Fees revenues have decreased by €55 Mio mainly due to global markets revenue decrease and the impact of the foreign currency effect over the year. Revenues from the American Depository Receipt have decreased by €9 Mio principally from the lower processing volumes of depository receipts issuances by €15.3 Mio smoothen by positive impact from cancellations by €6.3 Mio operated from the Dublin branch.

In 2016, the fees from clearing and settlements were nil (2015: €0.2 Mio); hence these are presented as part of other fees and commissions income.

Servicing, processing and support fees re-charged have principally been driven by lower global volumes in 2016 compared to 2015. In addition, high currency volatility experienced in 2015 have brought significant positive impact on revenue compared to 2016. In 2015 the devaluation of the Chinese Yuan and the Greece crisis earlier in the year have contributed to the currency volatility that lead to better results compared to current year.

Also custody fee expense experienced a decrease in 2016 compared to prior year; these represents the fees BNY Mellon SA/NV pays to its sub-custodians, both for intra-group and third parties.

Servicing (e.g. transactional, safekeeping), processing and support fees are fees re-charged by group companies on asset servicing related operations that would be mainly resulting from other group entities charging BNY Mellon SA/NV for servicing.

Other fee and commission expense of €24.9 Mio consists mainly of two major sub-components:

- Depository receipts from Irish Branch of a total of € 20.5 Mio (2015: €22.7 Mio) to the US parent of BNY Mellon SA/NV
- Other miscellaneous fees (mainly brokerage fees) of a total of € 4.4 Mio (2015: € 4.5 Mio).

4. Gains (Losses) on Non Qualifying Economic Hedges and Other Derivatives

	2016	2015
	In € '000	In € '000
Forward foreign exchange contracts	92,165	46,710
	92,165	**46,710**

Realized and unrealized result of currency swaps that act as economic hedges are recorded in this caption totaling €92.1 Mio, net of any FX revaluation on the underlying treasury placements. The result in this caption has significantly increased mainly due: a) the €38.8 Mio positive impact from the forward points due to lower EUR rates compared to the US rates expectations in line with 2015 trend and b) €9.7 Mio positive impact from GBP/ EUR forward points.

5. Other Operating Income

	2016	2015
	In € '000	In € '000
Gains /(losses) from sales of available-for-sale financial instruments	6,569	3,650
Miscellaneous income	1,881	2,710
	8,450	**6,361**

The gains from sales of available-for-sale financial instruments have resulted mainly from the sale of Nordea Bank Finland bonds (€6.4 Mio) compared to sale of Bundesbank (€1 Mio) and a German Eurobond (€1 Mio) in 2015.

Miscellaneous income comprises mainly the gains of €1.8 Mio from the sale of Corporate Administration Services product offering in Ireland, where it had less than 6% market share.

6. Personnel Expenses

	2016	2015
	In € '000	**In € '000**
Wages and salaries	94,306	95,468
Social security contributions	16,127	19,530
Pension costs – Defined benefit plan (Note 21.2)	4,291	3,785
Pension costs – Defined contribution plan (Note 21.1)	3,814	1,444
Share-based payments (Note 24)	1,593	1,705
Other	10,618	9,878
	130,749	**131,810**

The Personnel expenses, including in the pension costs related to defined contribution plan expenses remained stable compared with prior year. The pension costs have experienced a switch between the defined benefit and defined contribution costs due to a full year cost of the Collective Defined Contribution plan in the Netherlands that replaced the defined benefit plan settled in 2014, as well as the lower interest rates applied. Other expenses consist principally of medical insurance costs of €2.9 Mio, head office shared service staff expenses of €1.5 Mio and commuting programs for employees of €2.6 Mio.

7. Other Operating Expenses

	2016	2015
	In € '000	**En € '000**
Professional fees	25,932	22,662
IT expenses	19,813	11,028
Bank levies	17,129	1,299
Operational lease expenses	7,377	8,455
Non trading exchange differences	7,360	381
Shared services support (overhead)	17,053	13,939
Temporary clerical assistance	4,976	4,938
Non recoverable VAT	5,636	4,425
Repair and maintenance	4,970	3,616
Miscellaneous, including marketing	14,594	17,489
	124,840	**88,232**

Other operating expenses significantly increased compared to prior year mainly due to the bank levy and the impact from the foreign exchange difference.

The major components of other miscellaneous expenses are: foreign business tax of €1.9 Mio (€1.3 Mio), costs related to market data service and pricing vendors of €3.4 Mio (2015: €2.9 Mio), deposit insurance of €1.9 Mio (2016: €1.5 Mio) and commuting costs of €1.4 Mio (2015: €1.5 Mio).

8. Income Tax

The components of income tax expense for the years ended 31 December 2015 and 2016 are:

	2016	2015
	In € '000	**In € '000**
Current tax		
Current income tax	82,353	69,588
Adjustment in respect of current income tax of prior years	-	(11,185)
Deferred tax		
Relating to origination and reversal of temporary differences	(2,737)	(967)
	79,616	**57,437**

8.1. Reconciliation of the Total Tax Charge

Reconciliation between the tax expense and the accounting profit multiplied by Belgium's domestic tax rate for the years ended 31st of December 2015 and 2016 is as follows:

	2016	2015
	In € '000	**In € '000**
Accounting profit before taxes	**310,466**	**321,233**
1. Tax expense using Belgian statutory rate of 33.99% (2014:33.99%)	105,527	109,187
2. Effect of different tax rates in other jurisdictions	(10,973)	(15,272)
3. Income not subject to tax		
4. Non tax deductible expenses	960	324
5. Effect of utilization of previously unrecognized tax losses		
6. Adjustment in respect of current income tax of prior year	(2,582)	(14,462)
7. Other increase (decrease) in statutory tax charge	(13,315)	(22,340)
Income tax expense reported in the consolidated of comprehensive statement	**79,616**	**57,437**

The effective income tax rate of 2016 is 25.64% (2015: 17.88%).

8.2. Income Tax Effects relating to Comprehensive Income

	2016			2015		
	Before tax amount	**Tax (expense) benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense) benefit**	**Net of tax amount**
	In € '000	**In € '000**	**In € '000**	**In € '000**	**In € '000**	**In € '000**
Net gain/(loss) on actuarial gains and losses	(6,979)	1,693	(5,285)	5,900	(1,920)	3,980
Available-for-sale financial assets	20,880	(8,664)	12,216	(5,683)	967	(4,717)
Total	**13,901**	**(6,970)**	**6,930**	**217**	**(953)**	**(737)**

8.3. Current and Deferred Tax

The following table shows current tax assets and liabilities recorded on the consolidated statement of financial position:

	2016	2015
	In € '000	In € '000
Current tax assets		
Pending tax refunds	2,624	15,377
VAT tax receivables	10,580	9,246
Other	2,887	4,497
Total	**16,092**	**29,120**
Current tax liabilities		
Reserve for taxes	16,750	21,193
VAT tax payables	7,990	8,225
Other	624	268
Total	**25,364**	**29,686**

The following table shows deferred tax recorded on the consolidated statement of financial position and changes recorded in the income tax expense:

	Deferred tax assets 31 Dec 2016	Deferred tax liabilities 31 Dec 2016	Statement of Profit and Loss 2016	Other Comprehensive Income 2016	Deferred tax assets 31 Dec 2015	Deferred tax liabilities 31 Dec 2015
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Pensions	8,274	-	622	1,656	5,996	-
Temporary difference on goodwill deductible	-	(9,970)	(344)		-	(9,626)
Temporary difference on intangibles assets deductible	-	(5,952)	372		-	(6,324)
Other liabilities not recognized for tax purposes	44	-	(10)	-	54	-
Revaluation of financial instruments – available-for-sale	-	(15,835)	2,002	(8,498)	-	(9,339)
Other temporary differences	1,012	(191)	(41)	-	1,091	(154)
	9,330	**(31,948)**	**2,601**	**(6,843)**	**7,141**	**(25,442)**
Amounts offset	(8,574)	8,574			(7,087)	7,087
Total	**756**	**(23,374)**			**54**	**(18,355)**

BNY Mellon SA/NV has experienced tax losses in its German branch[10]. This branch has a history of losses and incurred additional losses, including a restructuring charge in the past years. The branch neither has any taxable temporary difference nor any tax planning opportunities available that could support the recognition of a deferred tax asset on these losses. On this basis, as from 2014, BNY Mellon SA/NV has determined that any deferred tax assets existing on the tax losses carried forward shall be de-recognized.

9. Cash and Cash Balances with Central Banks

	2016	2015
	In € '000	**In € '000**
Deposits with the National Bank of Belgium	158,684	172,321
Deposits with other central banks	10,737,105	11,483,827
	10,895,789	**11,656,148**

Deposits with the National Bank of Belgium and with some other central banks mainly represent mandatory reserve deposits and are not available for use in the day-to-day operations of BNY Mellon SA/NV. However, the principal amount of €10.6 Mio represents the placement with Deutsche Bundesbank and it is not an obligatory reserve deposit.

10. Loans and Advances to Customers

	2016	2015
	In € '000	**In € '000**
Loans and advances to		
Central Governments	6,436	2,352
Credit institutions	10,145,839	7,594,085
Other financial institutions	216,147	303,226
Less: Allowance for impairment losses	-	-
	10,368,423	**7,899,664**

BNY Mellon SA/NV balance sheet is liquidity driven. Deposits are mainly invested in bonds' portfolio. The increase of loans to credit institutions is principally due to the certificates of deposits totaling €1,899 Mio as of 31 December 2016 that were not present in at the end of 2015. These certificates of deposits are further pledged to Euroclear to cover an intraday credit line (Please see note 12). In addition, term deposits balance increased by €650 Mio.

After having performed impairment testing according to accounting policies, BNY Mellon SA/NV management concluded that no impairment should be accounted for.

This is consistent with the nature of business of BNY Mellon SA/NV and its counterparties. BNY Mellon SA/NV deals with high quality rated counterparts (see note 27.2.6 for an analysis by credit rating and note 27.2.7 on past due exposures) and on a very short term basis, as

[10] Tax losses carry forward amounts to € 222 Mio as of 31 December 2015.

explained in note 27, which presents maturity analysis of financial assets and liabilities. No non-performing loans and advances exist due to nature of the loans and overdrafts and, as a consequence, no impairment was recognized as of December 31, 2016 and 2015.

On 25 February 2016, BNY Mellon SA/NV signed a collateral agreement with Deutsche Bank AG to cover exposures incurred by BNY Mellon SA/NV's cash deposits to Deutsche Bank AG and its branches in its capacity of sub-custodian. The carrying amount of the securities given as collateral by Deutsche Bank AG at 31 December 2016 was € 241 Mio.

11. Investment Securities

	2016	**2015**
	In € '000	**In € '000**
Held to maturity investment securities issued by	**726,094**	**339,976**
Central governments	631,443	241,068
Credit institutions	94,651	98,908
Available for sale investment securities issued by	**13,296,496**	**14,441,397**
Central governments	10,603,032	12,321,051
Credit institutions	2,693,464	2,120,347
	14,022,590	**14,781,373**

BNY Mellon SA/NV invests in highly liquid debt securities to improve the interest margin and to have an adequate liquid asset buffer. The increase in held to maturity investment securities is principally explained by a US Treasury bond portfolio of € 398 Mio that did not exist at the year ended 2015. The slight decrease of €1.1 bn. in the available for sale portfolio is coming from the decrease in the US Treasury and German bonds portfolios. Please refer to note 27.3 for discussion on BNY Mellon SA/NV's approach to managing liquidity.

12. Asset Encumbrance

As from 2016, BNY Mellon SA/NV invests in certificates of deposits that are further on pledged as collateral to Euroclear. BNY Mellon SA/NV has signed a collateral agreement with Euroclear to cover an intraday credit line for $2.1bn.

On the 6th of September 2016, BNY Mellon SA/NV signed a pledge agreement with Monte Titoli SpA to reward for tax representative services related to Italian securities. The pledge is used as a security for the discharge in full and payment of the Secured Obligations (in accordance with the Financial Collateral Law and the Royal Decree N°62 as defined in the contract). The pledge has been set to € 1 Mio and it could be both cash or eligible securities.

As of 31 December 2016 the carrying and fair value of encumbered assets by type of assets were as follows:

	2016			2015		
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets
Assets	**In € '000**	**In € '000**	**In € '000**	**In € '000**	**In € '000**	**In € '000**
Debt securities	1,900,373	1,902,036	14,021,597	-	-	14,781,381
Other assets	246,660	246,660	20,258,669	263,502	263,502	20,371,995
	2,147,033	2,148,696	34,280,226	263,502		**35,153,376**

The carrying amount of the debt securities refer to Monte Titoli pledged security and the certificates of deposits pledged to Euroclear. Other assets encumbered refer to monetary reserves, mainly placed with National Bank of Belgium, treated as encumbered assets as these cannot be not freely withdraw to the bank.

The reportable encumbered collateral received, or available for encumbrance are presented below:

	2016		2015	
Encumbered assets/collateral received and associated liabilities	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued
	In € '000	In € '000	In € '000	In € '000
Carrying amount of financial liabilities				
Other sources of encumbrance	-	2,147,033	-	263,502

BNY Mellon SA/NV has no own debt securities issued. Other sources of encumbrance refer to the monetary reserves at central banks, Monte Titoli pledged security and the certificates of deposits pledged to Euroclear referred above.

13. Derivative Financial Instruments

The table below shows the fair values of derivative instruments, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts are indicative of neither the market risk nor the credit risk.

	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Derivatives held for trading	**2016**	**2016**	**2016**	**2015**	**2015**	**2015**
				In € '000	**In € '000**	**In € '000**
Forward foreign exchange contracts	218,708	261,428	25,971,506	225,213	256,978	34,265,192
	218,708	**261,428**	**25,971,506**	**225,213**	**256,978**	**34,265,192**

Derivatives often involve, at their inception, a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the value of the derivative.

Over-the-counter derivatives may expose BNY Mellon SA/NV to the risks associated with the absence of an exchange market on which to close out an open position.

BNY Mellon SA/NV's exposure under derivative contracts is closely monitored as part of the overall management of BNY Mellon SA/NV's market risk. Currently, concerning over-the-counter derivatives, BNY Mellon SA/NV has forward foreign exchange contracts related to: a) its treasury activity and b) customer transactions. The latter are mirrored on a back to back basis with BNY Mellon.

Disclosures concerning the fair value of derivatives are provided in Note 23.
In addition to the derivatives disclosed in the table above, BNY Mellon SA/NV also holds debt securities resulting from various transactions that are classified as trading. These are always very small amount (€7 thousand as of 31 December 2016).

14. Other Assets

	2016	2015
	In € '000	**In € '000**
Prepaid charges	5,952	6,494
Accrued income (other than interest income from financial assets)	63,336	64,166
Accounts receivable, including:	257,958	152,855
From affiliate companies	*44,289*	*36,786*
Miscellaneous	144	11,362
	327,389	**234,877**

The accounts receivable balance at year end is highly driven by day-to-day operations. The receivables from affiliate companies refer to the balances with entities that are part of the same group as BNY Mellon SA/NV. Miscellaneous assets include operating transactions that are in a suspense account until clarification that result from day-to-day operations of BNY Mellon SA/NV.

15. Property and Equipment

2016	Leasehold improvements	Computer equipment	Furniture, fixtures and other equipment	Total
Net Book Value				
At 1 January	7,546	310	3,012	10,868
Additions	15	159	311	484
Disposals	(45)			(45)
Depreciation charge for the year	(3,928)	(208)	(1,285)	(5,421)
Other				
At 31 December	**3,588**	**260**	**2,036**	**5,884**
Gross carrying amount	18,566	5,036	8,151	31,753
Accumulated depreciation and impairment	(14,979)	(4,776)	(6,115)	(25,869)

2015	Leasehold improvements	Computer equipment	Furniture, fixtures and other equipment	Total
Net Book Value	**In € '000**	**In € '000**	**In € '000**	**In € '000**
At 1 January	9,478	376	2,788	12,643
Additions	52	188	1,102	1,342
Disposals	(45)			(45)
Depreciation charge for the year	(1,939)	(241)	(878)	(3,058)
Other	-	(13)	-	(13)
Impairment losses recognized in profit or loss	-	-	-	-
At 31 December	**7,546**	**310**	**3,012**	**10,868**
Gross carrying amount	19,127	6,682	7,846	33,655
Accumulated depreciation and impairment	(11,581)	(6,372)	(4,834)	(22,787)

16. Goodwill and Other Intangible Assets

2016	Goodwill	Computer software	Client Contracts	Total
Net Book Value	**In € '000**	**In € '000**	**In € '000**	**In € '000**
At 1 January	**538,777**	**6,045**	**34,730**	**579,551**
Additions from separate acquisition	-	499	-	499
Retirement & disposals	(287)	-	-	(287)
Amortization charge for the year	-	(3,280)	(4,823)	(8,103)
Foreign currency translation effects	-	-	-	-
Other movements	-	-	-	-
At 31 December	**538,490**	**3,264**	**29,906**	**571,660**
Gross carrying amount	538,490	29,678	82,944	651,112
Accumulated depreciation and impairment	-	(26,413)	(53,037)	(79,451)

2015	Goodwill	Computer software	Client Contracts	Total
Net Book Value	**In € '000**	**In € '000**	**In € '000**	**In € '000**
At 1 January	538,777	2,659	40,012	581,448
Additions from separate acquisition	-	16,867	-	16,867
Retirement & disposals	-	(8,367)	-	(8,367)
Amortization charge for the year	-	(5,114)	(5,282)	(10,397)
Foreign currency translation effects	-	-	-	-
Other movements	-	-	-	-
At 31 December	**538,777**	**6,045**	**34,730**	**579,551**
Gross carrying amount	538,777	29,604	82,944	651,324
Accumulated depreciation and impairment	-	(23,558)	(48,214)	(71,773)

The disposal of €0.29 Mio in goodwill refers to Dublin branch and resulted from the sale of Corporate Administration Services product offering in Ireland, where it had less than 6% market share.

16.1. Impairment Testing of Goodwill

BNY Mellon SA/NV's management has tested the goodwill for impairment at BNY Mellon SA/NV level, which was determined to be the cash generating unit. We refer to section 1 (Accounting policies) for the determination of the cash generating unit. The impairment testing exercise was scheduled and performed before the year-end, using half year actual figures and budgets prepared as of 30 June 2016, compared to prior year.

No impairment losses on goodwill were recognized during the year ended 31 December 2016 (2015: nil).

The recoverable amount for BNY Mellon SA/NV has been calculated based on the value in use. This value in use was determined by discounting the future cash flows expected to be generated from the cash generating unit's continuing use. Unless indicated otherwise, value in use in 2016 was determined in a similar manner as in prior years. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on net earnings after taxes (corrected for "non-cash" gains/losses) as of 30 June 2016 and the 5-year business plan (forecast), including year 2016.
- Terminal cash flows were extrapolated using a constant growth rate of 3 percent (2015: 1.5 percent), which is based on the long-term growth assumption of the BNY Mellon SA. The forecast period is based on the BNY Mellon SA's forecasting horizon with respect to the operation of its activities.
- A discount rate of 10 percent (2015: 10 percent) was applied in determining the recoverable amounts for the cash generating unit. This discount rate used was aligned to the discount rate set for Asset Servicing business as per the BNY Mellon Group Accounting policies.

The key assumptions described above may change as economic and market conditions change.

Since end of 2015 as a forward-looking approach, management has decided to advance the timing of the goodwill impairment exercise and use mid-year actuals instead of year-end reporting figures, also aligning it to the internal financial budgeting/forecasting cycle.

BNY Mellon SA/NV Management believes that no reasonably possible change in any of the above key assumptions would cause the recoverable amount of the cash generating unit to decline below the carrying amount.

17. Financial Liabilities Measured at Amortized Costs

	2016	2015
	In € '000	In € '000
Deposits by central banks	**277,914**	**362,179**
Deposits from credit institutions	**9,038,916**	**9,501,477**
Current accounts / overnight deposits	8,868,562	9,418,443
Deposits with agreed maturity	170,354	83,034
Deposits from other financial institutions	**23,310,987**	**21,979,132**
Current accounts / overnight deposits	22,941,707	21,958,869
Deposits with agreed maturity	369,280	20,263
Deposits from non-financial institutions	**6,030**	**24,833**
Current accounts / overnight deposits	6,030	24,833
Subordinated liabilities (Note 20)	**354,950**	**358,837**
Other financial liabilities	**-**	**56,834**
	32,988,797	**32,283,292**

All the liabilities were issued by BNY Mellon SA/NV.

BNY Mellon SA/NV has not had any defaults of principal, interest or other breaches with regard to all liabilities during 2016 (2015: nil €).

18. Other Liabilities

	2016	2015
	In € '000	**In € '000**
Employee benefits – Defined benefit obligation (Note 21.2)	27,374	19,321
Other employee benefits and social charges	19,365	21,856
Leasing liabilities	4	42
Accrued charges (other than from interest expenses on financial liabilities)	37,509	36,418
Accounts Payables	99,651	50,441
Other	4,980	2,389
	188,884	**130,468**

Other liabilities caption increased mainly due to the third party accounts payable amounts, since the amounts due to affiliates have contributed only with a slight increase, totaling €27.4 Mio compared to prior year (2015: €20.2 Mio).

19. Provisions

	Restructuring Costs	Other provisions	Total
	In € '000		
At 1 January 2016	4,716	566	5,282
Amounts provisioned	6,835	769	7,603
Amounts utilized	(2,699)	(557)	(3,256)
Unused amounts reversed during the period	(2,280)	(167)	(2,447)
Other movements		26	26
At 31 December 2016	**6,572**	**637**	**7,209**
At 1 January 2015	6,331	875	7,206
Amounts provisioned	5,091	609	5,700
Amounts utilized	(4,696)	(221)	(4,917)
Unused amounts reversed during the period	(2,009)	(733)	(2,742)
Other movements	-	36	36
At 31 December 2015	**4,716**	**566**	**5,282**

BNY Mellon SA/NV has implemented a restructuring plan over the past five years that has led to job reallocation and re-organization of certain functions across different locations. The Brussels office maintains client facing functions, specialized processing activities and numerous shared services functions. The provision as of 31 December 2016 refers to the severance pool for this re-organization. Other provisions are mainly related to operational claims in Brussels and client tax reclaims in the German branch. No pending or legal issues provisions were accounted for during 2015 or 2016 and existed as of 31 December 2016.

20. Subordinated Liabilities

BNY Mellon SA/NV is the borrower of a perpetual loan from a related party of €92.5 Mio (2015: 92.5 Mio) to be used for general corporate purposes. Interest accrue on the loan at the rate of 8.18% per annum based on the actual number of days elapsed and a year of 360 days.
BNY Mellon SA/NV is also the borrower of a loan maturing on July 22nd 2040 from a related party of €253 Mio (2015: €253 Mio) to be used for general corporate purposes. Interest accrues on the loan at the rate of 8.75% per annum and is calculated on the basis of the actual number of days elapsed and a year of 360 days.

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

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

Notwithstanding the fact that the loans are perpetual or maturing on July 22nd 2040, these may be repaid at the option of BNY Mellon SA/NV (after written approval of the National Bank of Belgium):

- After the 5th anniversary of the Drawdown date;
- In case of a Tier 1 disqualification event;
- In case of a tax event; or
- In any such other case as agreed by the NBB.

The repayment price will be an amount equal to the aggregate of the amount of the outstanding loan and, the amount of any accrued (or deferred) but unpaid interest on the loan.

21. Retirement Benefit Plan

21.1. Defined Contribution Plan

BNY Mellon SA/NV has four defined contribution plans to which BNY Mellon SA/NV pays fixed contributions (two plans in the Netherlands, one in Luxembourg and one in Ireland); there is no legal or constructive obligation to pay further contributions. The contribution plan in Belgium is one lump sum out of two parts of a hybrid plan, treated overall as a defined benefit plan. The assets of the plans are held separately from those of BNY Mellon SA/NV in a fund under the control of trustees. For the Irish employees, a defined contribution plan exists.

The total expense of €3.8 Mio (2015: €1.4 Mio) charged to the consolidated statement of profit and loss and other comprehensive income represents contributions payable to these plans by BNY Mellon SA/NV at rates specified in the rules of the plan.

21.2. Defined Benefit Plan

Employee benefits

During the year the group operated four defined benefit plans: two in Belgium and two in Germany. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Nature of benefits provided by the Plans

The German Plans are final salary plans and provide pension benefits linked to salary at retirement or earlier date of leaving service. The plans are open to future accrual. The Belgian Plan provides a lump sum to members at retirement and has been closed to new employees since April 2007. Neither plan includes any guarantees provided by BNY Mellon SA/NV or its affiliates.

Regulatory framework in which the Plans operates

The group operates defined benefit pension plans in Belgium and Germany under broadly similar regulatory frameworks. Benefit payments are made from trustee-administered funds. Plan assets held in trusts are governed by local regulations and practice in each country, as is the nature of the relationship between the group and the trustees (or equivalent) and their composition.

Other entity's responsibilities for governance of the Plans

Trustees have the primary responsibility for governance of the Plans. Benefit payments are from Trustee administered funds and Plan assets are held in Trusts, which are governed by local regulations and practice in each country. Responsibility for governance of the Plans - including investment decisions and contribution rates - lies jointly with the company and Trustee Board. The Trustee Boards are comprised of representatives of the company and members in accordance with local regulations and practice.

Risks to which the Plans expose the Company

- Asset volatility - If plan assets underperform the discount rate a deficit results. As the German plans are entirely invested in fixed income assets, there is a possibility of underperformance against the discount rate and so an increase to the deficit.
- Longevity - Increases in life expectancy will increase plan liabilities, the inflation-linkage of the benefits for the German and Belgian Plans also means that inflationary increases result in a higher sensitivity to increases in life expectancy.
- Inflation risk - The majority of benefits in the German and Dutch plans are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). The Belgian Plan is less sensitive to inflation as a lump sum is provided at retirement.

Plan amendments, curtailments or settlements

No plan amendments, curtailments or settlements occurred during the financial year of 2016.

Funding arrangements and funding policy that would affect future contributions

The funding requirements of the individual plans are based on the actuarial measurement frameworks sets out in the funding policies of the plans and are in accordance with the statutory requirements of the plans in the various jurisdictions. BNY Mellon SA/NV undertakes separate actuarial valuations for funding purposes for each of the individual plans and pays contributions to the plans in line with the outcomes of these valuations.

Asset-liability matching strategies

Investment positions are managed by Pension Fund managers within an ALM framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, ALM objective is to match assets to pension obligations by investing in long-term interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The company actively monitors the duration and the expected yield of the investments to ensure they are matching the expected cash flows arising from the pension obligations.

Movement in net defined benefit (asset) liability

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit (liability)/ asset and its components.

	Defined benefit obligations		Fair value of plan assets		Net defined benefit (liability)/ asset	
	2016 In € '000	2015 In € '000	2016 In € '000	2015 In € '000	2016 In € '000	2015 In € '000
Balance at 1 January	**(74,957)**	**(74,688)**	**55,637**	**50,953**	**(19,320)**	**(23,735)**
Included in profit or loss						
Current service cost	(3,082)	(3,224)	-	-	(3,082)	(3,224)
Administrative expenses	-	-	(41)	(48)	(41)	(48)
(Losses)/gains on non-routine settlements[11]	-	-		-	-	-
Operating expense/ (income)	**(3,082)**	**(3,224)**	**(41)**	**(48)**	**(3,123)**	**(3,272)**
Net interest on the net benefit obligation/ (asset)	(1,796)	(1,669)	1,355	1,156	(441)	(513)
Finance expense/ (income)	**(1,796)**	**(1,669)**	**1,355**	**1,156**	**(441)**	**(513)**
Net benefit expense	**(4,878)**	**(4,893)**	**1,314**	**1,108**	**(3,564)**	**(3,785)**
Included in other comprehensive income						
Return on plan assets excluding interest income		-	(1,124)	1,290	(1,124)	1,290
Experience gains/ (losses)	2,305	451	-	-	2,305	451
Actuarial gains/(losses) arising from changes in financial assumptions	(8,722)	4,134	-	-	(8,722)	4,134
Actuarial gains/(losses) arising from changes in demographic assumptions	631	-	-	-	631	-
Total gains/ (losses) recognized	**(5,786)**	**4,585**	**(1,124)**	**1,290**	**(6,910)**	**5,875**
Other						
Net transfers (in)/out	-	(637)	-	633	-	(4)
Contribution paid by the employer	-	-	2,420	2,329	2,420	2,329
Benefits paid	1,426	676	(1,426)	(676)	-	-
	1,426	**39**	**994**	**2,286**	**2,420**	**2,325**
Balance at 31 December	**(84,195)**	**(74,957)**	**56,821**	**55,637**	**(27,374)**	**(19,320)**

The amounts of the defined benefit obligation and plan assets for the previous five years are reported below. The figures for 2012 were reported as per IAS 19.

[11] For the Dutch employees, a defined benefit plan existed as of 31 December 2013, but was settled on 12 June 2014 and replaced by a Collective Defined Contribution (CDC) plan.

Net defined benefit (obligation)/asset

31 December	2016	2015	2014	2013	2012
	In € '000	**In € '000**	**In € '000**	**In € '000**	**In € '000**
Fair value of plan assets	56,821	55,637	50,953	88,633	84,123
Defined benefit obligation	(84,195)	(74,957)	(74,688)	(108,149)	(108,583)
As of 31 December	**(27,374)**	**(19,320)**	**(23,735)**	**(19,516)**	**(24,460)**
Adjustments (the 'asset ceiling')			-	-	-
Net defined benefit (obligation)/asset	**(27,374)**	**(19,320)**	**(23,735)**	**(19,516)**	**(24,460)**

BNY Mellon SA/NV expects to contribute €2.48 Mio to its defined benefit pension plan in 2017 (2016: €2.54 Mio). The cumulative amount of gains and losses recognized in other comprehensive income is presented below:

Gains and losses recognized in other comprehensive income

	2016	2015
	In € '000	**In € '000**
As of 1 January	14,420	20,295
Recognized during the year	6,910	(5,875)
As of 31 December	**21,330**	**14,420**

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows (weighted average):

	2016	2015
Equity instruments (all quoted), of which:	51.4%	33.1%
Domestic equities	*16.9%*	*16.6%*
Overseas equities	*31.4%*	*15.0%*
Emerging markets equities	*3.1%*	*2.4%*
Debt instruments[12], of which:	43.8%	49.3%
Cash/cash (Quoted)	*0%*	*3.8%*
Interest rate swaps (quoted)	*0%*	*3.8%*
Corporate/government bonds	*29.4%*	*6.3%*
Fixed interest government bonds (unquoted)	*6.7%*	*5.5%*
Index-linked government bonds (unquoted)	*7.6%*	*4.7%*
Corporate bonds (unquoted)	*0%*	*24.4%*
Property (all quoted)	2.8%	2.4%
Cash	2.0%	15.2%
Quoted	*1.9%*	*14.4%*
Unquoted	*0.1%*	*0.8%*
	100%	**100%**

[12] Investments in funds are included in the categories of Debt Instruments. The sub-categories reflect the underlying assets of the fund.

The sector allocation of the equity instruments is as follows:

	2016	2015[13]
	In € '000	**In € '000**
Equity instruments, of which:	*29,494*	*18,567*
Energy, industrial companies and materials	8,016	4,080
Consumer Discretionary and Staples	6,482	4,497
Financials	6,069	4,049
Health Care	3,088	2,163
Information Technology	4,778	1,983
Other	1,062	1,794

Substantially the equity securities and bonds are issued in EUR currency (59%) and traded in active markets. All government bonds are issued by European governments. All bonds are rated, including: AAA – 11%, AA – 18%, A – 29% and BBB, BB or B – 40%.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on behalf of BNY Mellon SA/NV at 31 December 2016. The present values of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

Actuarial assumptions and sensitivity analysis

Assumptions are set based on actuarial advice with reference to the duration of the individual plans and market conditions in each territory. These individual plan assumptions are equivalent to liability-weighted assumptions as follows:

	2016	2015
Discount rate	1.90%	2.40%
Future salary growth	2.85%	3.25%
Future pension increase	1.75%	1.75%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into the average life expectancy underlying the values of the defined benefit obligation at the reporting date as per below:

	2016	2015
Longevity at age 65 for current pensioners		
Males	21.3	21.3
Females	25.2	25.2
Longevity at age 65 for current members aged 45		
Males	22.0	21.9
Females	25.8	25.8

[13] Equity instruments include only the plan assets of the Belgium pension plans in 2015.

Based on the assumptions set out above, the impact on the present value of the defined benefit obligations of changing the following individual assumptions (with all other assumptions remaining unchanged) is set out below.

Value of obligations at year end if (In '€000) :	Movement	31 December 2016
Discount rate reduced by	1.00%	101,982
Discount rate increased by	1.00%	67,240
Inflation reduced by	1.00%	78,118
Inflation increased by	1.00%	91,323
Life expectancy decreased by	1 year	82,431
Life expectancy increased by	1 year	85,918

The above analyses assume that assumption changes occur in isolation. In practice this is unlikely to occur and some assumptions may be correlated, such as pension increases and RPI inflation. The same method (project unit method) has been applied when calculating these sensitivities.

22. Issued Capital and Reserves

Authorized, issued and fully paid	2016	2015
	In '000	In '000
Ordinary shares of 976.7 € each	1,545	1,545
% Convertible preference shares (Note 24)	-	-
	1,545	**1,545**

As of 31 December 2016 BNY Mellon SA/NV recorded issued capital and share premium in a total amount of €1,509 Mio and €33.33 Mio respectively.

BNY Mellon has share option schemes under which options to subscribe for the BNY Mellon’s shares have been granted to certain executives and senior employees of BNY Mellon SA/NV.

23. Fair Value of Financial Instruments

23.1. Determination of Fair Value and Fair Value Hierarchy

BNY Mellon SA/NV uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Level 1 prices are available from an exchange, a dealer, broker or a similar counterparty. The fair value measurement of financial instruments with quoted prices is based on a mark-to-market valuation derived from currently available transaction prices with no valuation (modeling) technique needed.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. Observable inputs imply existence of an active market and should be used in preference to unobservable inputs. Risk free rates and exchange rates are observable inputs. Valuation techniques based on observable inputs are referenced to the current fair value of a similar instrument or a discounted cash flow model.

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The level 3 category implies that there is no active market and that assumptions hence internally developed valuation techniques are put in place to determine the fair value of the financial instrument.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy of BNY Mellon SA/NV:

2016	Level 1	Level 2	Level 3	Total
	In € '000	In € '000	In € '000	In € '000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	-	218,708	-	218,708
Financial investments available-for-sale (Quoted)				
Debt securities	12,629,407	667,089	-	13,296,496
	12,629,407	**885,797**	**-**	**13,515,204**
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	-	261,428	-	261,428
	-	**261,428**	**-**	**261,428**

2015	Level 1	Level 2	Level 3	Total
	In € '000	**In € '000**	**In € '000**	**In € '000**
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	-	225,213	-	225,213
Financial investments available-for-sale (Quoted)				
Debt securities	13,483,719	957,686	-	14,441,405
	13,483,719	**1,182,899**	**-**	**14,666,618**
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	-	256,978	-	256,978
	-	**256,978**	**-**	**256,978**

BNY Mellon SA/NV did not transfer any financial instruments from level 1 to level 2 and from level 1 and level 2 to level 3 of the fair value hierarchy in 2016 or 2015.

23.2. Financial Instruments Recorded at Fair Value

A description of the determination of fair value per class of financial instruments is presented below. The fair value determinations incorporate BNY Mellon SA/NV's estimate of assumptions that a market participant would make when valuing the instruments.

23.2.1. Derivatives

All BNY Mellon SA/NV OTC derivative products are valued using internally developed models that use as their basis readily observable market parameters and as a result these are classified as Level 2 of the valuation hierarchy. Such derivatives comprise the forward foreign exchange contracts used for treasury management.

At 31 December 2016 and 2015, OTC derivative assets and derivative liabilities included a CVA/DVA adjustment when measuring their fair value with an insignificant impact on the fair value.

23.2.2. Financial Instruments – Available-for-sale

Available-for-sale financial assets classified within Level 1 mainly consist of government securities that are actively traded in highly liquid over-the-counter markets. These securities are valued using recent quoted unadjusted prices.

If quoted market prices are not available, the fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For securities where quotes from recent transactions are not available for identical securities, BNY Mellon SA/NV determines fair value primarily based on pricing sources with reasonable levels of price transparency. Specifically, the pricing sources obtain recent transactions for similar types of securities (e.g. vintage, position in the securitization structure) and ascertain variables such as speed of prepayment and discount rate for the types of transaction and apply them to similar types of bonds. BNY Mellon SA/NV views these as observable transactions in the current marketplace and classifies such securities as Level 2.

23.3. Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements:

23.3.1. Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

23.3.2. Fixed Rate Financial Instruments

Where quoted market prices are not available, we generally base the fair value of loans on observable market prices of similar instruments, including bonds, credit derivatives and loans with similar characteristics. If observable market prices are not available, we base the fair value on estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loans.

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. As BNY Mellon SA/NV has high quality counterparts, credit risk does not significantly influence the fair value. From an economic viewpoint, credit risk is very low at BNY Mellon SA/NV. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. Set out below is a comparison, by class, of the carrying amounts and fair values of BNY Mellon SA/NV's financial instruments that are not carried at fair value in the consolidated financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

For all financial assets not measured at fair value, for which we disclose a fair value, the fair value measurement qualifies as Level 1. BNY Mellon SA/N reassessed its presentation of the fair value hierarchy of financial liabilities in 2015 and considers that the Level 2 reflects better the valuation technics used to estimate the value of financial liabilities given that the valuation is not derived directly from currently available transaction prices.

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash balances with central banks	10,895,789	10,895,789	11,656,148	11,656,148
Loans and advances to customers	10,368,423	10,368,423	7,899,664	7,899,664
Financial investments held to maturity (Quoted)	726,094	731,795	339,976	339,044
Financial liabilities				
Financial liabilities at amortized cost	32,988,797	32,988,797	32,283,292	32,377,396

The table below shows the interest income and expense that relates to financial instruments measured at amortized cost:

Interest income from financial instruments measured at amortized cost	**2016**	**2015**
	in € '000	**in € '000**
Cash and cash balances with central banks	-	-
Loans and advances to customers	110,626	81,385
Financial investments held to maturity (Quoted)	2,440	877
Total	**113,067**	**82,262**

Interest expense from financial instruments measured at amortized cost	**2016**	**2015**
	in € '000	**in € '000**
Deposits	94,681	68,876
Subordinated loans	30,199	30,187
Total	**124,880**	**99,063**

24. Share-based Payment

The share-based payment plans are described below. There have been no cancellations of or modifications to, any of the plans during 2016.

A Long Term Incentive Plan is operated by BNY Mellon, under which both stock options and restricted stock units are granted to senior employees.

Stock options were not issued in the last two years. The ones outstanding were granted at fair market value at the date of grant and vest 25% each year on the anniversary of the grant. Awards automatically lapse on the 10th anniversary of the grant. Each grant under the plan is issued with its own set of terms and conditions as described above. The plan is administered in the US and there are a number of exercise methods available to scheme participants including "cashless for cash" and "buy and hold" options.

Restricted Stock Units are also issued under the plan and vest in ¼ increments each year. The expense recognized for employee services received during the year is shown in the following table:

	2016	2015
	In € '000	**In € '000**
Expense arising from equity-settled share-based payment transactions	1,593	1,705
Total expense arising from share-based payment transactions	**1,593**	**1,705**

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year. The WAEP has been converted in EUR based on the monthly average rates (1.1065).

Options

	2016			2015		
	No.	**WAEP USD**	**WAEP EUR**	**No.**	**WAEP USD**	**WAEP EUR**
Outstanding at the beginning of the year	254,522	32.21	29.178	358,629	31.207	23.487
Exercisable at the beginning of the year	236,618	32.90	29.802	308,642	32.268	24.285
Staff transfers during the year	(7,432)	-	-	8,360	31.994	28.983
Granted and vested during the year	-	-	-	-	-	-
Forfeited during the year	-	-	-	(535)	22.030	19.957
Exercised during the year	(75,095)	32.82	29.661	(109,407)	29.065	26.329
Expired during the year	(12,721)			(4,008)	-	-
Outstanding at the end of the year	159,274	31.68	28.630	253,039	32.193	29.163
Exercisable at the end of the year	159,274	31.68	28.630	236,618	32.898	29.802

Restricted stock

	2016	2015[14]
	No.	**No.**
Outstanding at the beginning of the year	93,199	155,214
Internal staff transfers during the year	(4,946)	(658)
Granted during the year	42,467	49,343
Vested and exercised during the year	(53,992)	(109,986)
Forfeited during the year	(170)	(714)
Outstanding at the end of the year	76,558	93,199
Non vested expected to vest at year end	74,252	91,809

[14] The movement of restricted stock has been corrected for 2015 to include the part of the restricted stock awards that are mark to market or that have certain performance conditions attached that can impact the amount of shares awarded at vesting based on the terms of the award.

The weighted average remaining contractual life of options outstanding at year end is 2.79 years (2015: 3.43 years).

The range of exercise price of options outstanding at year end is from USD 11.96 to USD 57.26 (2015: USD 11.96 to USD 57.26).

The expected life of options and expected volatility of BNY Mellon stock both are based on historical data and hence reflect the assumption that historical data is indicative of future trends, which may also not necessarily be the actual outcome. No other features of option grants were incorporated into the measurement of fair value.
The share price and exercise price are the same and equal the price of BNY Mellon stock on the date of grant. No stock options were granted during the past three years and thus there is no available input data to the model used for equity-settled options for the years ended 31 December 2016 and 2015.

25. Contingent Liabilities, Commitments and Leasing Arrangements

25.1. Legal Claims

To the exception of the legal claim below, BNY Mellon SA/NV has no current legal claims to report as of 31 December 2016 and as of 31 December 2015. No amounts have been provided during 2016 concerning any legal claims.

BNY Mellon SA/NV is a defendant in legal proceedings initiated by certain holders of Euro-denominated bonds issued by the Republic of Argentina. Based on an in-depth legal analysis, management has currently assessed the probability of this litigation having a material impact on the financial position of BNY Mellon SA/NV as being remote.

25.2. Off-balance Sheet

The off-balance sheet items consist mainly of: (i) the assets under custody (AUC) totaling € 3,455 billion as of 31 December 2016 (2015: € 3,202 billion)), (ii) other received commitments, and (iii) lease arrangements.
The breakdown of the off-balance sheet positions are provided in the table below.

Overview of off balance sheet positions:

CATEGORY	2016	2015
	In € Mio	In € Mio
Contingent placements	21	65
Financial guarantees received for state guaranteed bonds (Note 27.2.4)	338	183
Securities received as collateral (Note 25.3)	241	-
Other commitments received (Note 25.3)	1,250	-
Assets under custody	3,454,699	3,201,581

The amount of assets under custody received, split by currency at 31 December 2016, are presented in the table below:

	2016			2015		
	EUR	Other currency	Total	EUR	Other currency	Total
	In € 'Mio	In € 'Mio	In € 'Mio	In € 'Mio	In € 'Mio	In € 'Mio
Assets under custody	1,319,506	2,135,193	3,454,699	1,288,437	1,913,144	3,201,581
	1,319,506	**2,135,193**	**3,454,699**	**1,288,437**	**1,913,144**	**3,201,581**

25.3. Collateral and other commitments received

On the 3rd of February 2016, BNY Mellon SA/NV signed a financial guarantee agreement with the Taipei Branch of Sumitomo Mitsui Banking Corporation (SMBC) to cover all nostro exposures of BNY Mellon SA/NV against HSBC Bank (Taiwan) Limited up to €250 Mio.

On the 11th of February 2016, BNY Mellon SA/NV signed an Unfunded Credit Risk Mitigation Agreement with the London branch of BNY Mellon Institutional Bank to cover the part of exposures exceeding the prudential limit (25% of own funds) on external counterparties for maximum €1 Bln.

On 25 February 2016, BNY Mellon SA/NV signed a collateral agreement with Deutsche Bank AG to cover exposures incurred by BNY Mellon SA/NV's cash deposits to Deutsche Bank AG and its branches in its capacity of sub-custodian.

25.4. Lease Arrangements

BNY Mellon SA/NV has entered into commercial operating leases on premises and equipment. These leases have an average life of 4 years for machine and equipment rental commitments and 9 years for premises lease commitments with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

For the lease payments recognized in profit and loss in the period please refer to note 7. Future minimum lease payments under non-cancellable operating leases as at 31 December 2016 and 2015 are as follows:

	2016	2015
	In € '000	**In € '000**
Within one year	10,003	10,599
After one year but not more than five years	36,277	39,238
More than five years	1,597	1,451
	47,877	**51,287**
of which:		
Car and equipment lease	*4,912*	*4,412*
premises lease	*42,965*	*46,876*

The decrease in the minimum lease payments is notably due to Dublin branch that exercised its break option on the premises rent contract that will run until December 2016 only.

26. Related Party Disclosures

26.1. Key Management Compensation

Key management personnel refer to the members of the Board of Directors, the Committees of the Board of Directors and senior management as set out in the Report of the Board of Directors.

	2016	2015
	In € '000	**In € '000**
Short-term employee benefits	2,124	1,417
Post-employment benefits	83	82
Other long-term benefits	14	13
Termination benefits	-	-
Share based payments	171	239
	2,392	**1,751**

Short-term employee benefits section consists of salaries of €1,813 thousand, social charges of €278 thousand and pension expenses of €33 thousand. Compared to prior year, the increase is mainly due to the remuneration of the key executives and three independent directors (2 independent directors in 2015, of which one director had started mid- 2015, hence having an impact of a full year in 2016).
Post-employment benefits of the key management are an estimation of extra-legal pension contribution. Other long term benefits are the contributions to the death-in-service reinsurance and long term disability.

More information regarding the share based payments are disclosed in Note 24.

26.2. Transactions with Key Management Personnel of BNY Mellon SA/NV

BNY Mellon SA/NV does not enter into transactions, arrangements and agreements involving directors, senior management and their relatives. There are no mortgages or any personal loans granted to key management. Therefore there is nothing to report as transactions with key management.

26.3. Transactions with Related Parties

The following is a summary of the balances relating to transactions with BNY Mellon SA/NV's parent (i.e. ultimate parent and ultimate controlling party only), the companies included in its parent's consolidated financial statements and other companies related to BNY Mellon group. The outstanding balances and transactions with own subsidiaries are included for presentation purposes only, since these transactions are eliminated for the consolidation scope.

Amounts payable to and amounts receivable from related parties

	2016			2015		
	Parent	Own subsidiaries[15]	Other entities of the group	Parent	Own subsidiaries [1]	Other entities of the group
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Assets: loans and advances	4,196,178	-	1,316,809	63,091	-	5,031,729
Current accounts	2,844,827	-	965,674	63,091	-	3,978,056
Term loans	1,351,351	-	351,136	-	-	1,053,673
Other receivables	131,218	815	9,310	24,058	391	111,271
TOTAL ASSETS	**4,327,397**	**815**	**1,326,120**	**87,149**	**391**	**5,143,000**
Deposits	6,633,613	2,696	1,736,516	643,998	1,631	7,275,833
Subordinated liabilities	-	-	354,950	-	-	358,837
Other liabilities	224,405	604	3,879	11,400	549	118,301
TOTAL LIABILITIES	**6,858,018**	**3,300**	**2,095,346**	**655,399**	**2,180**	**7,753,021**

Income and expense generated by transactions with related parties

	2016			2015		
	Parent	Own subsidiaries[15]	Other entities of the group	Parent	Own subsidiaries[1]	Other entities of the group
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Interest income	51,731	15	5,954	2,022	8	50,658
Fees and commissions	355,060	1,959	43,765	121,954	3,545	315,160
Other	-	1,122	-	1		2,664
TOTAL INCOME	**406,791**	**3,096**	**49,719**	**123,978**	**3,553**	**368,482**
Interest expense	35,183	16	35,157	805	-	67,045
Fees and commissions	140,647	3,336	13,866	63,350	1,667	105,037
Other[16]	33,438	-	790	14,883	65	5,714
TOTAL EXPENSE	**209,267**	**3,351**	**49,813**	**79,039**	**1,732**	**177,796**

[15] The amounts in 'Own subsidiaries' are consolidated in BNY Mellon SA/NV and presented here in above principally for disclosure purposes.

[16] Other expense presented for the parent in 2016 consists of overhead costs related to intercompany technology expenses (€17.2 Mio) and shared services support (€15.4 Mio).

26.4. Terms and Conditions of Transactions with Related Parties

The outstanding balances arise from the ordinary course of business. Outstanding balances at the year-end are unsecured. Nonetheless, the term deposits with BNY Mellon are covered by a master agreement that contains a right to withdraw prior to maturity date subject to early withdrawal penalty (break clause). For the year ended 31 December 2016, receivables on related parties are not considered to be doubtful and hence no provision for doubtful debt has been made.

26.5. Consolidated Subsidiaries and Branches and Key Financial Performance Figures by Geographical Location

The consolidated financial statements include the separate financial statements of BNY Mellon SA/NV which includes its branches and the subsidiaries in the following table:

Branches	Country of incorporation	Nature of activity
		2016
The Bank of New York Mellon SA/NV - Amsterdam Branch	Netherlands	Asset Servicing
The Bank of New York Mellon SA/NV - London Branch	United Kingdom	Asset Servicing
The Bank of New York Mellon SA/NV - Frankfurt Branch	Germany	Asset Servicing, Depot banking and Fund Administration, Derivatives Clearing, Corporate Trust, Treasury Services, Collateral Management, Depository Receipts and Global Client Management.
The Bank of New York Mellon SA/NV - Luxembourg Branch	Luxembourg	Fund Accounting, Depository Bank Services, Transfer Agency, Paying Agency, Custody and Corporate Trust Services
The Bank of New York Mellon SA/NV	Belgium	Asset Servicing: Global Custody, Collateral Management
The Bank of New York Mellon SA/NV - Dublin Branch	Ireland	Asset Servicing: Corporate Trust, Depositary Receipts
The Bank of New York Mellon SA/NV - French Branch	France	Asset Servicing
BNY Mellon Service Kapitalanlage - Gesellschaft mbH (subsidiary)	Germany	Asset Servicing, Depot Banking and Fund Administration, Derivatives Clearing, Corporate Trust, Treasury Services, Collateral Management, Depository Receipts and Global Client Management.

Name of Subsidiary	Country of incorporation	% equity interest	% equity interest
		2016	2015
BNY Mellon Service KVG	DE	100%	100%
Stichting Administratiekantoor BNY Mellon Global Custody	NL	100%	100%

The turnover, profit before tax and after tax consolidated into the consolidated statement of profit and loss of BNY Mellon SA/NV as well as the number of employees (full time equivalent) are presented by location in the table below:

Branches	Turnover*	Profit before tax	Profit after tax	No of FTE (equivalent)
	In € '000	In € '000	In € '000	
The Bank of New York Mellon SA/NV - Amsterdam Branch	61,793	34,501	31,579	153
The Bank of New York Mellon SA/NV - London Branch	78,586	57,396	47,532	-
The Bank of New York Mellon SA/NV - Frankfurt Branch	87,009	(14,764)	(17,131)	239
The Bank of New York Mellon SA/NV - Luxembourg Branch	3,712	1,129	708	7
The Bank of New York Mellon SA/NV	684,682	205,589	145,213	599
The Bank of New York Mellon SA/NV - Dublin Branch	77,724	25,799	22,033	257
The Bank of New York Mellon SA/NV - French Branch	2,454	168	81	7
BNY Mellon Service Kapitalanlage - Gesellschaft mbH	30,269	647	833	113
Total	**1,026,228**	**310,446**	**230,849**	**1,375**

Turnover comprises interest income, fee and commission income, gains on non-qualifying economic hedges, gains from sale of available-for-sale debt securities and non-trading gains from exchange differences.

26.6. Business Combinations

No business combinations occurred in 2016. On April 1st, 2017, BNY Mellon, Luxembourg, SA has merged with BNY Mellon SA/NV. As a result of this merger, the activity of BNY Mellon, Luxembourg, SA has been integrated into the existing BNY Mellon SA/NV, Luxembourg branch and BNYM SA/NV has a seventh branch, in Milan.

The operation was a cross-border merger, on merger date BNY Mellon SA/NV issued 127,251 new shares in exchange of all assets and liabilities of BNY Mellon Luxembourg SA.

27. Risk Management

27.1. General

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

BNY Mellon SA/NV adheres to BNY Mellon's global risk culture. BNY Mellon places significant importance on continually improving and strengthening its risk management approach and capabilities, including strong governance, policy, process, risk measurement and appropriate incentives. This emphasis, in conjunction with a defined strategy and focused programs related to risk awareness, has fostered a sound and evident risk culture throughout the company.

The Risk Function's goal is to establish and maintain a strong, adequately resourced, and forward looking BNY Mellon SA/NV Risk function that is well placed to identify and manage emerging risks in a timely manner, by legal entity and business.
Risk Management provides independent oversight that risks are adequately identified and measured, remain commensurate to the risk appetite and that there is an appropriate balance between risk and associated risk mitigation costs, and provides independent challenge to the business.

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

27.1.1. Risk Management Framework

Risk Appetite

BNY Mellon defines risk appetite as "the level of risk it is normally willing to accept while pursuing the interests of our major stakeholders, including our clients, shareholders, employees and regulators". The Risk Appetite Statement (RAS) defines metrics and controls to measure and monitor risks relative to the risk appetite. These metrics establish risk thresholds through qualitative and quantitative expressions of risk appetite to monitor risk-taking activities.

The Risk Appetite of BNY Mellon SA/NV constitutes the risk limiting perimeter within which the Head Office, Branches and Subsidiary must operate.

The Board owns and defines the RAS, and is responsible for annually reviewing it and approves any amendment. The Risk Appetite Metrics Report is actively monitored, and managed by the BNY Mellon SA/NV Executive Committee through a defined governance and set of delegated controls to ensure that the performance of business activities remains within risk appetite levels. The Risk Appetite is reviewed if the risk profile changes or at least annually. It is governed by a Group Policy.

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

27.1.2. Committees assisting the Executive Committee

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

Risk Management Committee ("RMC")

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

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

The RMC is responsible for ensuring that risk and compliance activities undertaken by BNYM SA/ NV and its underlying branches and subsidiary and businesses are executed in accordance with internal policies and all relevant regulations.

Capital and Stress Testing Committee (“CSTC”)

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

The CSTC is an empowered decision making body under authority delegated by BNY Mellon SA/NV Executive Committee and subject to corporate policy, legislation and external regulation.

Asset and Liability Committee (“ALCO”)

The Belgium ALCO is responsible for overseeing the asset and liability management activities on the balance sheet of BNY Mellon SA/NV and its branches and subsidiaries, and for ensuring compliance with all liquidity, interest rate risk and capital related regulatory requirements.
The Belgium ALCO holds meetings on regular (primarily monthly) basis but ad hoc meetings can also be called at the discretion of the Chair.

Business Acceptance Committees (BAC)

The BAC is responsible for the acceptance, oversight and guidance of new and existing businesses and clients for each of the following business lines for all BNY Mellon legal entities across EMEA has been established: Asset Servicing, Corporate Trust, Depository Receipt, Global Markets, Broker-Dealer & Advisory Services and Global Collateral Services.

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

Credit Risk Oversight Committee (“CROC”)

The key purpose of the CROC is to oversee all forms of credit risk, to oversee controls of credit risk associated with BNY Mellon SA/NV banking business and to ensure compliance with BNY Mellon SA/NV credit policies. The activities of the CROC are reported to the Executive Committee as well as to the RMC where relevant.

Technology and Information Risk Committee (TIRC)

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

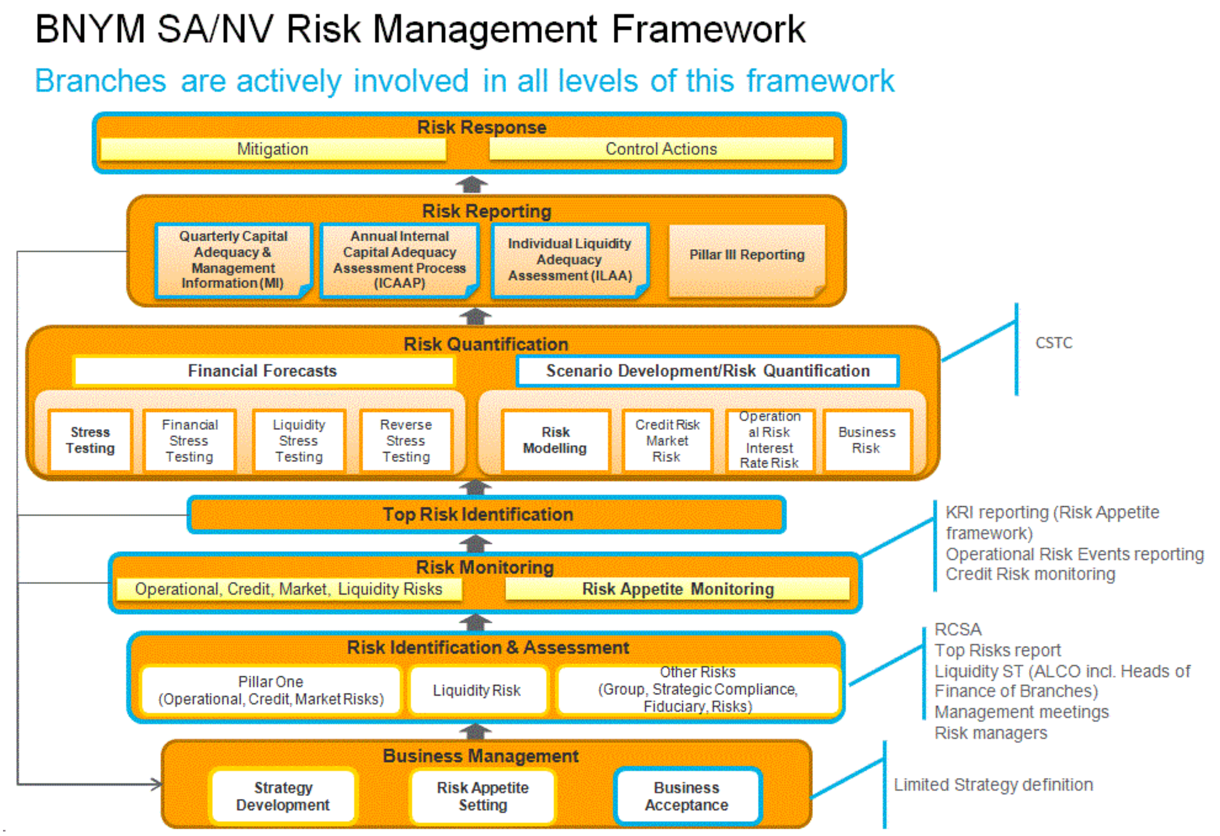
- Oversee the risk management activities for Information Technology (IT) processes;
- Review and approve business requests for material enterprise IT risk exceptions;
- Review Enterprise and Business Group Level IT Scorecards quarterly;
- Oversee high risk IT initiatives, including acquisition integrations, as needed;
- Review new or significantly modified End User Technology and Information Risk policies;
- Report technology issues/risks to RMC Committee at scheduled meetings;
- Review Disaster Recovery plans and (test) results;
- Review IT End of Life Product.

Belgium Management Committee (BEMCO)

The purpose of the BEMCO is to play a very important role in sharing joint responsibility for leading all BNY Mellon employees in Belgium, regardless of legal entity, functional, or business affiliation.
The Committee is responsible for overseeing, informing, supporting and involving other local bodies, as well as ensuring employee engagement with the Brussels location and the company.
The Committee shall also decide or escalate matters discussed with the employee relations bodies.

27.1.3. Description of the Risk Management Framework

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



A designated Legal Entity Risk Manager (LERO) oversees each one of the six BNY Mellon SA/NV Branches, the Brussels Head Office, and the KVG Subsidiary. A Branch Risk Report is prepared monthly at Branch and Subsidiary Level including Top Risks, KRIs, and other details relevant for the business at Branch and Subsidiary level. This report is reviewed monthly at the Branch Management Meeting, and also presented to the BNY Mellon SA/NV Risk Management Committee by the Branch Managers where items are discussed and escalated. All the documentation is stored by the BNY Mellon SA/NV RMC secretary, including minutes and action points.

27.1.4. Risk Assessment Methodology and Reporting Systems

Risk identification and monitoring occur in the business (operational areas) and within focused risk departments. Several processes are in place in order to ensure that the risks are correctly and timely identified and monitored. Monitoring and controlling risks is primarily performed based on limits established by BNY Mellon SA/NV. These limits reflect the business strategy and market environment of BNY Mellon SA/NV as well as the level of risk that BNY Mellon SA/NV is willing to accept. In addition, BNY Mellon SA/NV's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

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

Risk identification and reporting is made using a series of tools and information systems. Each risk type is assessed and reported by risk experts to BNY Mellon SA/NV RMC.

The BNY Mellon SA/NV benefits from multiple data gathering, risk monitoring and escalation flows. A designated Legal Entity Risk Manager (LERO) oversees each one of the six BNY Mellon SA/NV Branches, the Brussels Head Office, and the KVG Subsidiary. A Branch Risk Report is prepared monthly at Branch and Subsidiary Level including Top Risks, KRIs, and other details relevant for the business at Branch and Subsidiary level. This report is reviewed monthly at the Branch Management Meeting, and also presented to the BNY Mellon SA/NV Risk Management Committee by the Branch Managers where items are discussed and escalated. All the documentation is stored by the BNY Mellon SA/NV RMC secretary, including minutes and action points.
BNY Mellon SA/NV generally does not build its own risk infrastructure, data aggregation and reporting tools. In that sense, all the tools used by the risk experts are Corporate tools, of which the building and maintenance is framed by policies and Service Level Agreements. One notable exception is the large exposure tool (Concentration Risk System - CRS). This tool was developed by BNY Mellon SA/NV, and is tailored to the needs of BNY Mellon SA/NV.

27.1.5. Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP")

BNY Mellon SA/NV monitors its capital adequacy in accordance with Basel Framework on the basis of Pillar 1 requirements as well as Pillar 2 (Economic Capital).

Pillar 1 capital requirement is calculated according to the Basel standardized approach for credit, market and operational risks, and for credit value adjustment. The standard formula is based on weighting factors applied to the balance sheet and profit and loss components.
Pillar 2 capital requirement is based on an internal risk assessment of the components of the balance sheet and of the business activities; it uses BNY Mellon SA/NV methodologies (most being BNY Mellon methodologies) which follow an approval process including independent validation by BNY Mellon's model validation team. These methodologies are presented to and approved by BNY Mellon SA/NV Board of Directors. BNY Mellon SA/NV also conducts stress tests in order to assess the resilience of the capital base in the future. This provides an avenue for macro-economic scenarios, new activities or strategic plans to be assessed from a capital perspective.

The ILAAP process reflects a strong liquidity risk management culture and efficient governance regime in place within the firm. Throughout the ILAAP preparation cycle the content, findings and conclusions set out in this paper have been reviewed and challenged by the relevant stakeholders and governance committees.

The ILAAP is a living document updated on a regular basis and, no less frequently than annually. It includes liquidity stress testing proving the resilience of the firm in case of market or idiosyncratic liquidity events.

27.1.6. Risk Mitigation

As part of its overall risk management and in addition to the different mitigation measures implemented within the different risk categories, BNY Mellon SA/NV uses derivatives and other instruments to manage exposures resulting from changes in foreign exchange rates. This use is limited to the economical coverage of the liquidity invested in part of its debt instruments portfolio.

27.2. Credit Risk

27.2.1. Source of Risks

Credit risk is the risk that an obligor is unable or unwilling to satisfy an obligation when it falls due. Credit risk can originate from on-balance sheet obligations such as deposits, loans, commitments, securities and other assets by failing to make the required repayments. Credit risk can also be created by off-balance sheet items including (as at end 2016) traded counterparty credit risk and letters of credit.

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

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

BNYM SA/NV is also exposed to credit risk through the risk of payments against uncollected funds which may cause overdrafts.

27.2.2. Credit Risk Management Framework

The Credit Risk Management Framework (CRMF) defines roles and responsibilities using the three lines of defense, as defined in section 27.1. The CRMF within BNY Mellon SA/NV relies on awareness, well defined policies, procedures and reporting, a clear governance structure and suitable tools for reporting and monitoring; these are used to effectively identify, manage, mitigate, monitor and report the risks in an organized way to the appropriate governance body.

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

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

27.2.3. Credit Risk Monitoring and Control

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

Monitoring and control of intraday cash and securities' instruction is done in GFC which is a real-time system, i.e. fund control is done and credit approval is given at the time of the processing of the instruction in the source system.

Post event monitoring is conducted by both client service areas and the credit risk function. Specific guidelines to these processes are detailed in the Group Credit Risk Policy Manual database.

Every counterparty is associated with an Internal rating defining its credit quality. In that respect, Group standards are applied uniformly within the Group.

Nostros accounts are maintained at the minimum possible level and within large exposures limits commensurate with smooth operation of client and own fund's needs. The banks used are all major well rated banks in the relevant country.

Regarding intraday overdrafts, limits are set for each client as a percentage of a client's assets under custody (subject to certain maximum levels); all cash payments are checked against this limit on a real-time basis. Any excesses are referred to a credit officer for approval. Occasionally business requirements are such that a manual fixed limit is required. In these situations, specific credit approval is provided by the credit risk manager. Again all cash payments are checked against this limit, prior to payment. These arrangements allow clients to access proceeds of sales, or other expected funds, even though in many markets the proceeds are not formally received until late in the day.

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

Derivative financial instruments

BNY Mellon SA/NV maintains strict control limits on derivative positions by amount and maturity, and is only engaged for economic hedging purposes. Credit risk arising from derivative financial instruments is, at any time, limited to the positive current fair values of these financial instruments (plus a regulatory "add-on" reflecting the future credit risk exposure of these derivatives).

Collateral or other security is usual practice to cover the credit risk exposure on these instruments, except where BNY Mellon SA/NV requires margin deposits from counterparties.
Settlement risk arises where a payment in cash, securities or equities is made in the expectation of a corresponding similar receipt. Daily settlement limits are established for each counterparty to cover the aggregate settlement risk exposures resulting from the daily market transactions of BNY Mellon SA/NV.

The exposure value of derivatives as of 31st of December 2016 is €219 Mio (2015: €225 Mio).

Offsetting financial assets and financial liabilities

BNY Mellon SA/NV does not offset any financial assets and financial liabilities except for intragroup exposures where an MNA exists. The disclosures set out in the table below include financial assets and financial liabilities that are subject to legal agreements similar to enforceable master netting arrangements, which cover similar financial instruments, irrespective of whether they are offset in the statement of financial position.
The similar agreements include global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Financial assets and liabilities subject to offsetting, enforceable master netting agreements for the year 2016 are presented in the following table:

	Gross amounts of recognized financial instruments	Gross amounts of recognized financial liabilities/assets offset in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Related amounts of financial instruments not offset in the statement of financial position
	In € '000	In € '000	In € '000	In € '000
Types of financial assets				
Loans and advances to customers	1,795,069	1,771,336	23,733	9,569
Types of financial liabilities				
Deposits	5,578,208	1,771,336	3,806,872	9,569

In prior years BNY Mellon SA/NV’s activities of sale and repurchase, and reverse sale and repurchase transactions, and securities borrowing and lending were covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements. As of 31 December 2016 and 2015, no such transactions existed within BNY Mellon SA/NV.

BNY Mellon SA/NV received and accepted collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements; and

Such collateral is subject to the standard industry terms of ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty’s failure to post collateral.

At 31 December 2016 BNY Mellon SA/NV had no exposures subject to the above agreements.

27.2.4. Collateral and Other Credit Enhancements

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

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

27.2.5. Risk Concentrations: Maximum Exposure to Credit Risk

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

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

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

The largest exposure is to The Bank of New York Mellon and is spread across multiple branches and locations which provide some mitigation in the case of the default or rating downgrade of a related party. The remaining placements (including central bank placements) are diversified across a number of banks and geographic locations. In March 2014, a Master Netting Agreement (MNA) was signed between BNY Mellon SA/NV and BNY Mellon. This agreement has a significant positive impact on the credit risk capital requirement and thereby on BNYM SA/NV solvency ratio. The agreement was signed after December 31, 2013 and the impact was included in Pillar 1 calculations in June 2015. The effect of the first MNA is already visible as of June 2014 in the Pillar 2 figures. Two additional MNA were signed with BNYM Luxembourg SA and with BNYM International Limited in July 2015.

In addition, an Unfunded Credit Risk Mitigation Agreement (UCRMA) is used for day-to-day management of the risk but are not taken into account for regulatory reporting purposes at the end of the reporting period. The UCRMA is not taken into account for statutory and consolidation reporting.

BNY Mellon SA/NV has carried out extensive work in connection with the remediation of large exposure and concentration risk concerns. The Concentration Risk System has been implemented which enables BNYM SA/NV to manage (counterparty and country) Credit Concentration Risk on a day-to-day basis, addressing the requirements of the business and the risk function, and to report Large Exposures to the NBB in line with applicable Large Exposures regulatory reporting requirements. This reporting tool has been in place since July 2014.

There was no breach in 2016.

The following table shows the maximum exposure to credit risk for the financial assets and financial liabilities, by geography and by industry before the effect of mitigation through the use of master netting and the Unfunded Credit Risk Mitigation Agreement. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Overview of maximum credit risk exposure

	Maximum risk position		**Collateral**	
	2016	**2015**	**2016**	**2015**
	In € '000	**In € '000**	**In € '000**	**In € '000**
Cash and cash balances with central banks	10,895,789	11,656,148	-	-
Derivative financial instruments (asset side)	218,708	225,213	-	-
Investment securities (Note 25.2)	14,022,590	14,781,373	337,548	183,336
Loans and advances to customers (note 25.3)	10,368,423	7,899,664	402,225	-
Derivative financial instruments (liability side)	261,428	256,978	-	-
Financial liabilities measured at amortized cost	32,988,797	32,283,292	-	-
Deposits	*32,633,847*	*31,867,620*	-	-
Subordinated liabilities	*354,950*	*358,837*	-	-
Other financial liabilities	-	*56,834*	-	-

	Maximum credit risk exposure by region, carrying values:				**2016**	**2015**
	Africa	**Americas**	**Europe**	**Asia Pacific**	**In € '000**	**In € '000**
FINANCIAL ASSETS						
Cash and cash balances with central banks	-	-	10,895,789	1	10,895,789	11,656,148
Derivative financial instruments	343	878	211,067	6,420	218,708	225,213
Investment securities	-	4,718,848	9,221,325	82,417	14,022,590	14,781,373
Loans and advances to customers	199,860	1,368,304	7,273,295	1,526,965	10,368,423	7,899,664
TOTAL FINANCIAL ASSETS	**200,203**	**6,088,029**	**27,601,476**	**1,615,803**	**35,505,510**	**34,562,399**
FINANCIAL LIABILITIES						
Derivative financial instruments	4,808	258	249,158	7,204	261,428	256,978
Deposits	129,496	3,235,712	29,244,811	378,778	32,988,797	31,867,620
Other financial liabilities	-	-	-	-	-	415,672
TOTAL FINANCIAL LIABILITIES	**134,304**	**3,235,970**	**29,493,970**	**385,982**	**33,250,225**	**32,540,271**

	Maximum credit risk exposure by industry, carrying value:				2016	2015
	Credit institutions	General Government	Other Financial institution	Non-Financial institution	In € '000	In € '000
FINANCIAL ASSETS						
Cash and cash balances with central banks	10,895,789	-	-	-	10,895,789	11,656,148
Derivative financial instruments	84,945	-	133,763	-	218,708	225,213
Investment securities	2,788,115	11,234,475	-	-	14,022,590	14,781,373
Loans and advances to customers	10,145,839	6,436	216,147	-	10,368,423	7,899,664
TOTAL FINANCIAL ASSETS	**23,914,688**	**11,240,912**	**349,910**	**-**	**35,505,510**	**34,562,399**
FINANCIAL LIABILITIES						
Derivative financial instruments	205,324	6	56,083	15	261,428	256,978
Deposits	9,671,780	4,748	23,310,987	1,283	32,988,797	31,867,620
Other financial liabilities	-	-	-	-	-	415,672
TOTAL FINANCIAL LIABILITIES	**9,877,104**	**4,754**	**23,367,070**	**1,297**	**33,250,225**	**32,540,271**

27.2.6. Monitoring Sovereign Risks

Risk Management of BNY Mellon SA/NV has actively managed through events in the macro-economy, unstable political situations in regions, acts of nature and threats of a regional debt contagion, events impacting employees, clients and business operations. Stress tests are also conducted as needed. Thus far, no direct credit losses have been recorded in BNY Mellon SA/NV from these events. At the end of 2016 BNY Mellon SA/NV had no sovereign debt exposure to the Russian Federation, Ukraine or Puerto Rico on its on balance sheet. The split per country is presented further down.

Overview of exposure to sovereign debt at year-end 2016 and 2015, carrying value (in € 000):

Country	Held-for-trading	Balances with Central Banks	Investment securities		Loans and receivables	2016	2015
			Available-for-sale	Held to maturity			
Belgium	-	158,684	963,550	-	-	1,122,234	1,187,906
Germany	-	10,683,760	696,127	-	-	11,379,887	12,627,716
Spain	-	-	563,208	-	-	563,208	650,345
France	-	-	1,902,145	146,486	-	2,048,632	2,001,916
United Kingdom	-	33,217	1,550,222	30,355	-	1,613,793	1,485,394
Ireland	-	-	73,589	-	-	73,589	105,350
Italy	-	-	702,571	-	-	702,571	917,873
Luxembourg	-	-	31,707	-	-	31,707	73,868
Netherlands	-	20,127	866,066	55,304	6,436	947,934	930,843
Sweden	-	-	54,642	-	-	54,642	128,475
United States	-	-	3,199,206	399,298	-	3,598,504	4,110,058
Other	948	2	-	-	-	950	1,392
TOTAL	**948**	**10,895,789**	**10,603,032**	**631,443**	**6,436**	**22,137,649**	**24,221,136**

Other countries include mainly Pakistan and Macao in 2016.

27.2.7. Credit Quality by Class of Financial Assets

Credit is approved through the credit risk function of BNY Mellon, within the risk appetite tolerances of BNY Mellon SA/NV. All counterparties (clients and banks) are assessed and allocated a credit rating in accordance with the BNY Mellon internal rating system.

BNY Mellon's internal methodology for borrower ratings is based on external ratings and a dedicated internal assessment. The internal rating scale ranges from 1 to 18 and is mapped to internally estimated probabilities of default. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on BNY Mellon SA/NV's internal credit rating system. This system can be linked to more common rating systems available on the market. The amounts represent the credit risk exposures as calculated according to regulatory rules. There are no impaired financial assets recognized for BNY Mellon SA/NV in 2016 (2015: € nil).

Internal BNY Mellon rating	**S&P' equivalent grades**	**Moody's equivalent grades**	**Held-for-trading**	**Balances with Central Banks**	**Investment securities***		**Loans and receiva-bles**	**2016**	**2015**
					Available for sale	**Held to maturity**			
								€ Mio	**€ Mio**
1-2	AAA/AA+	Aaa/Aa1	-	10,684	6,338	489	386	**17,897**	**18,204**
3-6	AA/A	Aa2/ A2	206	181	5,406	232	7,673	**13,698**	**13,658**
7-9	A-/BBB	A3 /Baa2	8	31	850	5	1,818	**2,712**	**1,468**
10-13	BBB-/BB-	Baa3/Ba3	4	-	703		224	**931**	**1,078**
14-16	B+/B-	B1/B3	-	-	-		141	**141**	**82**
17	CCC+	Caa1	-	-	-		15	**15**	**1**
NR			-	-	-		112	**112**	**71**
			219	**10,896**	**13,296**	**726**	**10,368**	**35,506**	**34,562**
Accrued interest**									
Total									

*Investment securities are rated based on the lower of the two external credit ratings.
**Accrued interest has been included directly in the table in 2016.

It is BNY Mellon SA/NV's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products.

The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk in accordance with BNY Mellon SA/NV's rating policy. The risk ratings are assessed and updated regularly.

27.2.8. Impairment Assessment

For accounting purposes, BNY Mellon SA/NV uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days (trigger date: 60 days for overdrafts) or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. BNY Mellon SA/NV may address impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

	December 2016 (in € 000)	December 2016 (in %)	December 2015 (in € 000)	December 2015 (in %)
Loans and Advances to Customers (note 10)	**10,368,423**	**100%**	**7,899,664**	**100%**
Out of which past due:				
- Below 30 days	4,167	0.04%	5,461	**0.07%**
- Between 31 days and 60 days	165	0.00%	454	0.01%
- Between 61 days and 90 days	49	0.00%	0	0.00%
- Between 91 days and 180 days	1,190	0.01%	210	0.00%
- Between 181 days and 1 year	276	0.00%	4,459	0.06%
- Above 1 year	494	0.00%	159	0.00%
			179	0.00%
Out of which impaired:	**0**	**0.00%**	**0**	**0.00%**

There is no past due on Investment Securities and Cash and Cash Balances with Central Banks.

Individually assessed allowances

BNY Mellon SA/NV determines the allowances appropriate for each significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

BNY Mellon SA/NV has not recorded any allowance for individual loans in 2016 (2015: € nil).

BNY Mellon SA/NV did not make any collective assessment for impairment, as its remaining balances of its loans and advances, outside the ones determined to be the individually significant, were assessed to be cumulatively immaterial.

BNY Mellon SA/NV has not recorded any allowance on a collective basis for loans in 2016 (2015: € nil).

27.2.9. Commitments and Guarantees

BNY Mellon SA/NV does not enter into irrevocable commitments and contingent liabilities for external customers. The off-balance sheet items of BNY Mellon SA/NV contain mainly: lease car or rental commitments and state guarantees on debt securities. These are not qualified as loan commitments. For more details please refer to note 25.

27.2.10 Regulatory and Economic Capital Requirements

Capital requirement for credit risk Pillar 2 (covering FX, CVA, IRRBB and CSRBB) resulted in an amount of € €370 Mio (2015: € 415 Mio), versus the Pillar 1 calculation of € 181 Mio (2015: € 130 Mio).

27.3. Liquidity Risk and Funding Management

27.3.1. Source of Risks

BNY Mellon SA/NV defines Liquidity as it the ability to access funding, convert assets to cash quickly and efficiently, or to roll over or issue new debt (where applicable), especially during periods of market stress, in order to meet its short-term obligations.

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

BNY Mellon SA/NV 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 where it is direct in a payment system.

BNY Mellon SA/NV aims to be self-sufficient for liquidity and seeks to maintain a very liquid balance sheet at all times. BNY Mellon SA/NV's balance sheet is liability driven primarily due to deposits generated through its asset servicing and custody business activities. Liabilities and sources of funds consist mainly of third party client deposits and intercompany deposits. Client deposit balances are operational in nature and exhibit a degree of "stickiness" from a liquidity perspective.

Cash on the balance sheet in main currencies is deployed in the following ways:

- Placed overnight with national central banks through the Head office or branches
- Used to fund the securities portfolio, primarily comprising of High Quality Liquidity Assets (HQLA)
- Placed short term in the interbank market
- Used to fund overdrafts, which are mainly operational in nature and short-term
- Placed short term with other BNY Mellon entities (intercompany placements)

Other currencies may be placed directly in the interbank market or left on Nostro accounts.

27.3.2. Liquidity Risk Management Framework

Responsibility for strategy, policies and monitoring

BNY Mellon SA/NV has in place a governance structure commensurate with the range of its activities and its liquidity profile. Liquidity risk is managed and monitored from a legal entity and functional perspective through various committees and forums.

BNY Mellon SA/NV has a strong liquidity risk management culture and liquidity risk management is demonstrably embedded in its policies and processes.

The goal BNY Mellon SA/NV's liquidity management is to ensure that all liquidity risks are defined, understood, and effectively managed through well-designed policies and controls. In this context, BNY Mellon SA/NV has established a robust liquidity risk management framework that is fully integrated into BNY Mellon risk management processes.

The liquidity risk management framework, is prepared in accordance with the guidelines set forth by the regulators, and encompasses the unique structure and characteristics of BNY Mellon SA/NV.

The primary objective of the liquidity risk management framework is to ensure that, with a high degree of confidence, BNY Mellon SA/NV in a position to meet its day-to-day liquidity obligations and withstand a period of liquidity stress, the source of which could be idiosyncratic, market-wide or both. As the framework is a global approach, the same guidelines apply to BNY Mellon SA/NV as to other BNY Mellon entities.

BNY Mellon SA/NV has a liquidity risk management process in existence which meets the requirements of numerous stakeholders including BNY Mellon SA/NV ExCo, Treasury, Risk, Finance, Belgium ALCO and the Board. BNY Mellon SA/NV has in place three lines of defense which monitor and control liquidity risk:

- **First Line of Defense:** Corporate Treasury, which includes International Treasury team based in London and Portfolio Management Group based in New York, acts as front office which carries out day to day execution and management of BNY Mellon SA/NV's liquidity management activities, balance sheet management, capital, collateral and interest rate risk management. BNY Mellon SA/NVs middle and back office teams also contribute the first line of defense.
- **Second Line of Defense:** includes risk management function and compliance function, providing an independent oversight to the market and liquidity risks undertaken by BNY Mellon SA/NV.
- **Third Line of Defense:** Internal audit function.

The liquidity risk management process is kept under continual review and there is a regime of continual improvement in place to ensure that control remains effective at all times.

Stress testing

Liquidity stress testing is conducted at the BNY Mellon SA/NV consolidated level. The purpose of liquidity stress testing is to examine BNY Mellon SA/NV's ability to survive a range of plausible but extreme increasingly severe liquidity stress scenarios and adverse funding conditions in line with Art. 98 - 100 of the EU Directive 2013/36/EU as well as recommendations laid down in EBA/GL/2014/13 Guidelines on common procedures and methodologies for the supervisory review and evaluation process (EBA SREP - Guideline, Titles 8 and 9).

The following table details the liabilities according to the remaining term to maturity (contractual maturity date):

2016	Overnight	On demand	Less than a week	Up till 3 months	3 months 1 year	1 year-5 years	Over 5 years	Gross nominal inflow/ (outflow)	Book Value
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Non derivative liabilities									
Deposits		31,855,817	500,072	44	-	-	-	32,355,933	32,355,933
Deposits from central banks		277,914	-	-	-	-	-	277,914	277,914
Subordinated liabilities		-	-	15,182	14,935	120,466	779,626	930,209	354,950
Other financial liabilities		-	-	-	-	-	-	-	-
		32,133,731	**500,072**	**15,226**	**14,935**	**120,466**	**779,626**	**33,564,056**	**32,988,797**

2015	Overnight	On demand	Less than a week	Up till 3 months	3 months 1 year	1 year-5 years	Over 5 years	Gross nominal inflow/ (outflow)	Book Value
	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000	In € '000
Non derivative liabilities									
Deposits	-	30,920,409	585,033	-	-	-	-	31,505,442	31,505,442
Deposits from central banks	-	362,179	-	-	-	-	-	362,179	362,179
Subordinated liabilities	-	-	-	15,182	15,017	124,334	360,619	515,151	358,837
Other financial liabilities	-	56,834	-	-	-	-	-	56,834	56,834
	-	**31,339,422**	**585,033**	**15,182**	**15,017**	**124,334**	**360,619**	**32,439,606**	**32,283,292**

By the nature of its business, BNY Mellon SA/NV finds itself in very large positive liquidity position. The liability side consists mostly of the customer cash deposits with mostly very short term maturities held on the sight accounts and linked to their activities in the global securities markets.

On the asset side of the balance sheet, overdrafts occur on specific client accounts and are mainly of technical nature and very short duration. They do not influence in any meaningful way the overall liquidity position of BNY Mellon SA/NV.

27.4. Market Risk

27.4.1. Source of Risks

Market risk is defined as the risk of adverse change to the economic condition of BNY Mellon due to variations in prices, rates, implied volatilities, or correlations of market risk factors. Market risk factors include but are not limited to interest rates, foreign exchange rates, market liquidity, equity prices, credit spreads, pre-payment rates, commodity prices and issuer risk associated with the Company's trading and investment portfolios.

Market risk is a systemic risk. Movements in markets are beyond the control of BNY Mellon SA/NV. Market risk to BNY Mellon SA/NV is reviewed below in two contexts: impact on balance sheet and impact on revenues and consequently its profitability.

BNY Mellon SA/NV does not run a trading book. The Corporate Treasury FX swap activity is classified as held for trading from an accounting perspective. The Markets FX trading and sales activity is fully back-to-back (on a trade by trade basis) with BNY Mellon London Branch, hence no market risk resides in the trading book of BNY Mellon SA/NV.

BNY Mellon SA/NV is currently exposed to four types of market risk: (a) currency risk, (b) CVA, (c) interest rate risk and (d) credit spread risk.

- BNY Mellon SA/NV revenues are denominated in a mix of currencies whereas a high proportion of the bank's costs are denominated in Euro. Apart from the risk of currency mismatch between revenues and cost, the bank is not significantly exposed to this risk.
- Credit Valuation Adjustment (CVA) risk relates to the FX swaps used in the context of Treasury management and FX swaps client activity.
- BNY Mellon SA/NV interest rate income is subject to the risk that as market interest rates tend toward zero or below, BNY Mellon SA/NV cannot pass all of the interest rates reduction to its client. Interest rate risk in the banking book will also arise from maturity or re-pricing mismatches and from products that include embedded optionality; the risk could crystallize with changes in interest rate risk/the shape of the yield curve.
- The securities portfolio bears additional credit spread risk.

27.4.2. Market Risk Management Framework

BNY Mellon SA/NV undertakes market risk within the boundaries of the BNY Mellon's Risk Appetite as approved by the Board of Directors of The Bank of New York Mellon Corporation. The subsidiaries that issue Risk Appetite statements approved by their boards (as the BNY Mellon SA/NV) must undertake market risk within the boundaries of those statements as well. BNY Mellon SA/NV manages market risk using a "three lines of defence" approach (i.e. by each business unit, by Market Risk, and by Internal Audit).

BNY Mellon SA/NV personnel engaging in market risk-taking or exposure management activities must be explicitly authorized or mandated.

Market risk limits are set for market risk consistent with the BNY Mellon SA/NV's Risk Appetite (and Risk Appetite statements of subsidiaries, where relevant) and are jointly managed by the business units undertaking the risk and the Market Risk function (respectively, the first and second lines of defense).

Market risk exposure is measured, monitored and analysed using both quantitative and qualitative methods by the Market Risk function.

BNY Mellon measures, monitors, and analyses market risk in a manner consistent with applicable law, regulations, and supervisory guidance.

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

- Monitoring of utilization of market risk limits on a daily basis
- Reporting of limit utilization and limit breaches
- Periodic limit reviews
- Coordinating with business data providers to ensure the completeness and accuracy of data that is the basis for market risk data

Market Risk independently daily monitors limit breaches which, depending on the level and type of limit that is breached, are escalated and notified to the Executive Committee and Board Risk Committee, ALCO, or to Senior Risk Management and Business Management levels in the organisational hierarchy.

27.4.3. Market Risk – Non-trading

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

Interest rate risk framework

For BNY Mellon SA/NV, the liabilities are predominantly without maturity.

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

Nonetheless, interest rate risk is a standard agenda item of BNY Mellon SA/NV ALCO. The current market risk limit scheme set within this framework in respect of BNY Mellon SANV is simple and sets straightforward controls on the level of IRRBB permitted in BNY Mellon SANV's treasury activities. A new IRRBB framework has been implemented in 2016 to better align, measure and monitor risk appetite, net interest income, capital and market risk and to meet new regulatory requirements.

Sensitivity analysis

For regulatory purposes, an interest rate sensitivity analysis is prepared on a quarterly basis as shown below this paragraph. The economic value of the banking book is determined by discounting the future cash flows for assets and liabilities present in this book, in accordance with the provisions of NBB Circular PPB-2006-17-CPB and related amendments. The sensitivity of the economic value to interest rate shocks is presented in the first column, whereas the extent the net interest income is sensitive to interest rate movements compared to the amount in 2016 is presented in the columns to follow.

	Equity sensitivity	Income sensitivity			
Interest scenarios	Economic value of banking book	Effective	Coming 12 months	Coming months 13 to 24	Coming months 25 to 36
	In € '000	In € '000	In € '000	In € '000	In € '000
Parallel increase/(decrease) of interest rate, in bps:					
300	1,417,824	-	(69,664)	(86,431)	(1,984)
200	1,684,960	-	(19,549)	(35,991)	15,792
100	1,959,933	-	30,567	14,448	33,567
No movement	2,241,810	86,888	76,066	58,483	44,938
(100)	2,347,697	-	116,941	82,852	51,496
(200)	2,406,683	-	116,998	72,527	32,726
(300)	2,408,161	-	116,674	72,856	33,055

Credit spread risk framework

Movements in credit spreads impact the economic value of the investment portfolio held by the Bank. The Bank's investment portfolio is accounted for under the banking book category. Given the accounting category, default risk is captured under the capital requirements (under Credit Risk) and credit spread risk is accounted for via a dedicated Economic Capital model.

27.4.4. Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with BNY Mellon SA/NV's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. In addition, BNY Mellon SA/NV applies a monthly sell-off process in order to reduce foreign exchange exposure generated by the activity of the bank. This is done through foreign exchange from the currency into the base/functional currency of the entity.

The table below indicates a split of the statement of financial position items at carrying amounts at year end, per currency

<u>Currencies exposures before economic hedge</u>

	EUR	GBP	USD	Other	In € '000
31 December 2016					
Total assets	19,522,915	4,923,898	7,129,244	4,851,242	36,427,299
Total liabilities and shareholder's equity	13,691,599	7,748,742	8,507,695	6,479,263	36,427,299
The statement of financial position (net)	5,831,316	(2,824,844)	(1,378,451)	(1,628,021)	-
31 December 2015					
Total assets	20,945,253	3,540,651	6,136,859	4,794,115	35,416,878
Total liabilities and shareholder's equity	11,280,684	7,737,699	8,760,075	7,638,420	35,416,878
The statement of financial position (net)	9,664,569	(4,197,048)	(2,623,216)	(2,844,305)	-

The table below indicates the currencies to which BNY Mellon SA/NV had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Euro, with all other variables held constant, on the consolidated statement of profit and loss and other comprehensive income and equity. A negative amount in the table reflects a potential net reduction in consolidated statement of profit and loss and other comprehensive income or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Euro would have resulted in an equivalent but opposite impact.

Stress Test before economic hedge

Currency	Variation	Conversion rate at closing	Effect on profit before	Effect on equity	Variation	Conversion rate at closing	Effect on profit before	Effect on equity
		2016	2016	2016		2015	2015	2015
			€ Mio	€ Mio			€ Mio	€ Mio
Scenario 1	1%				1%			
USD	0.0109	1.0538	63.89	48.08	0.0109	1.0887	83.15	53.40
GBP	0.0073	0.8551	38.36	14.22	0.0073	0.7340	42.50	11.44

BNY Mellon SA/NV is entering into FX Forward for “economic hedge” purposes. So, net exposures after economic hedging are not significant.

BNY Mellon SA/NV also manages its liquidity by currency and ensures that the net position in each currency does not exceed internal limits.

27.4.5. Regulatory and Economic Capital Requirements

Capital requirement for market risk Pillar 2 (covering FX, CVA, IRRBB and CSRBB) resulted in an amount of € 384 Mio (2014: € 323 Mio), versus the Pillar 1 calculation of € 10 Mio (2014: € 12 Mio).

27.5. Operational Risk

27.5.1. Source of Risks

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

Key operational risks for BNY Mellon SA/NV include:

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

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

27.5.2. Operational Risk Management Framework

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

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

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

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

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

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

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

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

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

27.5.3. Regulatory and Economic Capital Requirements

Capital requirement for operational risk Pillar 2 (using an internal hybrid model) resulted in an amount of € 160 Mio (2015: €158 Mio), versus the Pillar 1 calculation of € 82 Mio (2015: €77 Mio).

28. Capital

BNY Mellon SA/NV maintains an actively managed capital base to cover risks inherent to the business. The adequacy of BNY Mellon SA/NV's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the NBB in supervising BNY Mellon SA/NV. During the past year, BNY Mellon SA/NV had complied with its externally imposed capital requirements. Please refer to point 27.1.4 for additional comments on excessive risk concentration.

28.1. Capital Management

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

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), BNY Mellon SA/NV defined measurement methods for its economic need for capital as well as management and control methods to encompass its risk policies. Furthermore, stress test scenarios are applied, e.g. economic downturn scenarios as well as idiosyncratic scenarios. These tests conclude that BNY Mellon SA/NV is sufficiently capitalized to encompass most of the scenarios. Where needed, additional capital requirement were calculated on the basis of the stress test. The difference between the economic capital and the regulatory capital incorporates the margin ensuring that the capital level of BNY Mellon SA/NV is sufficient at all times. The latter is in function of the risk profile and of the risk aversion of BNY Mellon SA/NV.

Regulatory capital

	2016	2015
	€ Mio	**€ Mio**
Qualifying Core Tier1 capital	2,932	2,693
Qualifying Tier1 capital		-
Total qualifying Tier 1 capital	2,932	2,693
Deductions	(602)	(640)
Total Tier 1 capital	2,330	2,053
Total qualifying Tier 2 capital	346	346
Total capital	**2,676**	**2,399**
Total Risk Exposure Amount	**3,421**	**2,741**
Risk weighted exposure amount for credit risk	**2,268**	**1,630**
Risk exposure amount for foreign exchange risk	**60**	**75**
Risk exposure amount for credit valuation adjustment (CVA)	**70**	**70**
Risk exposure amount for operational risk	**1,023**	**966**
Capital Ratios		
Core Tier 1 capital ratio	68.1%	74.9%
Tier 1 capital ratio	68.1%	74.9%
Total capital ratio	78.2%	87.5%
Leverage Ratio	6.2%	5.7%

Regulatory capital consists of qualifying core Tier 1 capital, which comprises the paid up share capital, share premium, retained earnings, including current year profit and filtering out the valuation reserves, less goodwill and other intangibles. The Board has formally adopted a (non-)dividend policy by which all profits are systematically carried forward and recommended the same for approval to the shareholders' meeting. For risk weighted exposure amount for credit risk, the standardized approach is used. Certain adjustments are made to IFRS-based results and reserves.

During the second quarter of 2015, BNY Mellon SA/NV implemented the Master Netting Agreement covering the netting of placements and deposits with BNY Mellon Corporation, as an eligible form of credit risk mitigation under the capital requirements regulation (CRR) for regulatory reporting purpose. The implementation of this measure, combined to the exit of derivatives clearing and securities lending indemnification businesses increased BNY Mellon SA/NV's strong solvency and leverage ratios.

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