



BNY Mellon Investment Management Europe Holdings Limited

2016 PILLAR 3 DISCLOSURE



BNY MELLON | Invested

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1 Introduction

The Bank of New York Mellon (BNY Mellon) is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As at December 31 2016, BNY Mellon had \$29.9 trillion in assets under custody and/or administration, and \$1.6 trillion in assets under management.

This Pillar 3 disclosure relates to BNY Mellon Investment Management Europe Holdings Limited ('IMEH') – a holding company for BNY Mellon EMEA-based investment management firms - and is published in accordance with the requirements of the Financial Conduct Authority ('FCA') Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3). Pillar 3 disclosures are made in respect of the consolidation group headed by IMEH.

This disclosure is made annually. The company will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy, and information about risk exposure and other items prone to rapid change.

This disclosure was approved for publication by the Board of Directors (hereafter the 'Board') on 4th October 2017 and will be published on The Bank of New York Mellon Corporation group website (www.bnymellon.com), in the section Investor Relations, Financial Reports, Other Regulatory.

1.1 Purpose of Pillar 3 Disclosure

The EU Capital Requirements Directive (CRD) is the genus of the FCA's prudential rules and establishes a risk sensitive approach to capital management which is comprised of three pillars:

- **Pillar 1** establishes rules for the calculation of minimum capital for credit risk, market risk and the Fixed Overhead Requirement.
- **Pillar 2** is an internal discipline to evaluate the adequacy of the regulatory capital requirement under Pillar 1 and other non-Pillar 1 risks. This pillar requires the FCA to undertake a supervisory review to assess the robustness of IMEH's internal assessment and its capital requirements.
- **Pillar 3** complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to gauge the capital adequacy of individual financial institutions.

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosure, Pillar 1 reporting and Pillar 2 ICAAP content e.g. disclosure about risk management practices and capital resources at year end.

2 Scope of Application

2.1 Company Description

The IMEH group forms the EMEA arm of BNY Mellon's global asset management business. In common with the global strategy, it operates the 'multi-boutique' model. Under this model each of the firms acquired or established operates with a significant degree of operational autonomy. The strategy of the various subsidiaries is decided by the individual Boards. Through the appointment of senior management to the individual Boards, the Group have input into and oversight of the on-going development and assessment of that strategy.

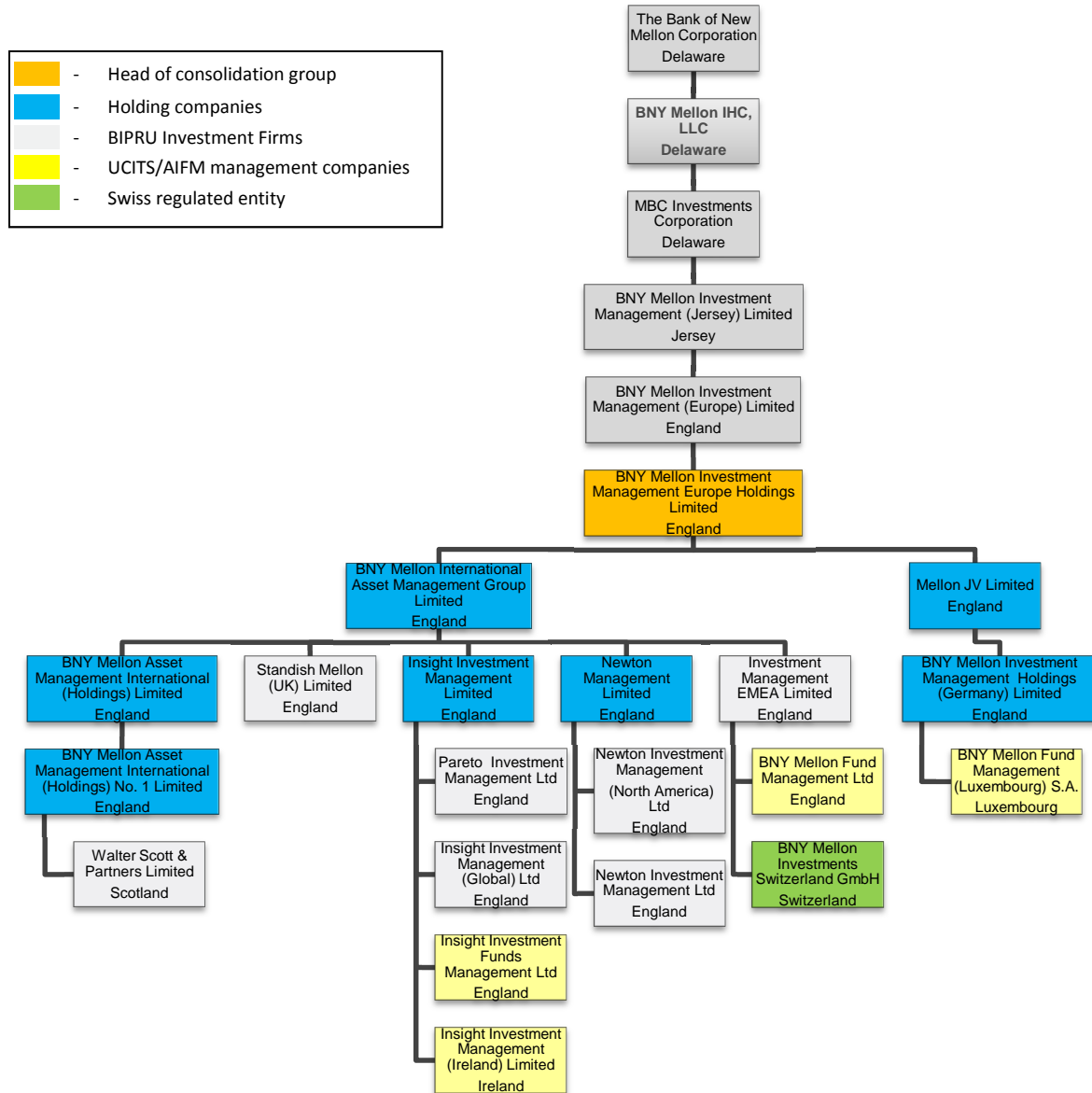
The following regulated entities ('Boutiques') are fully consolidated subsidiaries as of 31st December 2016:

- BNY Mellon Investment Management EMEA Limited ('IM EMEA')
- BNY Mellon Fund Management Limited
- BNY Mellon Investments Switzerland GmbH
- BNY Mellon Fund Management (Luxembourg) S.A.

BNY Mellon Investment Management Europe Holdings Limited

- Insight Investment Management Limited, comprising Insight Investment Management Limited, Insight Investment Funds Management Limited, Insight Investment Management (Ireland) Limited and Pareto Investment Management Limited
- Newton Management Limited, comprising Newton Investment Management Limited and Newton Investment Management (North America) Limited
- Standish Mellon Asset Management (UK) Limited
- Walter Scott & Partners Limited

Figure 1: BNYM IMEH Corporate Structure



3 Risk Management Objectives and Policies

3.1 Risk Management Framework

Each of the Boutiques is operated as a discrete entity and the Board and executive team members have a high degree of knowledge about their business and are very close to the day-to-day risk management and other associated issues such as trading, compliance and staff management. The regulated Boutiques’ Boards

have primary responsibility for both the management and the oversight of risks together with the quality and effectiveness of risk management, compliance and regulatory frameworks in their firms. They meet at least on a quarterly basis and consider reports and issues escalated by the delegated groups and committees within their business. In case of Insight, Newton, BNY Mellon Fund Management Limited and Standish UK each has appointed Independent Non-Executive Directors to the Boards of the Regulated entities.

Risk Management culture is centred on the Three Lines of Defence with Risk Management being the second and Internal Audit the third line of defence. Within the EMEA Investment Management business, the EMEA and LatAm Investment Management Head of Risk and Compliance oversees the management of risk through Risk Managers operating in the Boutiques.

3.2 Scope and Nature of Risk Reporting Systems

BNYM Investment Management is a global business with global oversight arrangements. The global Investment Management Risk Committee (IMRC) meets monthly in New York. The IMRC is chaired by Mitchell Harris – the Investment Management CEO - and the membership includes representatives from each of the BNYM IM regions. The IMRC is responsible for the management of risk across the entire IM business.

The IMRC has set a risk appetite for the Global Investment Management business and each Boutique has established its own risk appetite within the overall global tolerance and framework. Risk metrics exist at every level of the stated risk appetite to ensure and report, both at a Boutique level and globally, that risks are being managed with agreed limits.

All Boutiques have a Risk & Compliance Committee. These meet at least quarterly, but in practice tend to be monthly, and commonly comprise risk & compliance, business line management, finance and representatives from Central Risk, Compliance, Audit and Legal. Escalation guidelines exist to ensure appropriate escalation. In addition, depending on the size and business activities, some Boutiques have senior management, investment, credit and other committees.

Notwithstanding the autonomy and responsibility of the individual Boutiques, each of them adopts a common overall risk framework in line with global BNYM policy standards. This helps to ensure thoroughness of risk management activities, consistency of approach, and commonality in escalation to the IMRC. The elements of the risk management framework are:

3.3 Risk Appetite Statement

An overarching Risk Appetite Statement (RAS) has been prepared at the Global Investment Management business level. Each business within the consolidated IMEH Group has and maintains a local RAS including the levels of risk that it has determined it will accept, and how those levels will be monitored and reported. Although each business has the autonomy to propose any level of risk appetite that its Board considers appropriate, any levels of risk which exceed the IM accepted levels of risk require approval by the IMRC.

3.4 Risk and Control Self-Assessment

Each business assesses the risks associated with its key business processes. Detailed process driven risk assessments consider all factors of the operation of each business. Assessments consider the frequency and severity of operational losses, performance of key risk indicators, emerging risks, audit and regulatory findings. In the event a control is deemed as 'Designed Effectively/ Operating Ineffectively' or 'Designed Ineffectively/ Operating Ineffectively' the risk owner or their designee documents a description of the Control Gap and Action Plan to mitigate the control inefficiency.

1.1.1 Key Risk Indicators

Key Risk Indicators (KRIs) are used by business lines to evaluate control effectiveness and residual risk within a business process. Material risks are monitored by appropriate KRIs which relate directly to key risks identified in the RAS. The business lines use the corporate KRI process to monitor changes in the probability of the high risks materialising, and to ensure that appropriate actions are taken. KRIs are reported on a monthly basis or quarterly basis.

1.1.2 Operational Risk Events

Significant events of \$10k or greater and all near misses must be recorded on the Risk Management Platform as soon as practicable but not later than within 30 calendar days of detection. Sector Operational Risk Managers may grant an extension at their discretion. Significant Events greater than USD \$50,000 must be elevated and reported to Senior Management within 7 calendar days of detection and include the best available information at that point in time. A near miss with a notional or transactional value greater than \$100 million should be elevated to Senior Management on detection day.

1.1.3 High Level Assessment

On a quarterly basis a high level risk assessment (HLA) is carried out at the Investment Management level that covers all the firms in the IMEH Group. HLA provides a qualitative assessment of the inherent risk, quality of control, residual risk and direction of risk for Operational Risk Basel loss type categories and certain sub-type categories.

1.1.4 Emerging and External Risks

Emerging and External Risks are identified according to the assessment of the inherent risk, quality of controls in place to mitigate risk and likelihood to identify residual risk. Emerging and External Risks are rated as 'High', 'Moderate', and 'Low' with direction anticipated.

1.1.5 Stress Testing

Stress testing is performed at the IMEH Consolidated level to ensure consistency, and supplemented by boutique level stress testing to deal with any idiosyncratic risks. The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration. Sources of risk information used to assist scenario development include Emerging and External Risk reporting, financial sensitivity analysis, outputs from the risk assessment tools, operational risk trends, macro-economic data, financial news, client management information or general business statistics.

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by IMEH's and boutique legal entity boards for boutique level tests.

The conclusion of the stress testing process is a statement of the future risk(s) the business faces, control improvements to mitigate the impact should the risk arise and where appropriate, a recommendation for the capital held against each risk type.

4 Key Risk Areas

4.1 Operational Risk

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

Across the IMEH group the level of operational risk is managed through rigorous operating policies, procedures and controls set by the Boutiques' Boards and implemented by Risk Management.

Business Managers in each Boutique are responsible for Risk Control Self Assessments ("RCSA"), which include identification of the risks associated with key business processes, identifying and measuring the effectiveness of controls in place to manage risk and for remediation of any weakness. RCSAs are reviewed on at least an annual basis by Business Management. The Risk Management teams have an independent oversight role in this process.

Model Risk constitutes an integral part of BNYM risk management framework and is managed at the legal entity level by Business Managers. The IM Boutiques use models as a complement to a qualitative investment or business judgement, or as primary drivers of investment decisions. All models are subject to the BNYM Enterprise Model Risk Management Policy which governs the process of development, approval and validation of models.

The Boutiques' Boards monitor operational risks and the appropriateness of controls through the Risk & Compliance Committee and independent reporting from Risk Managers. This requires the Boutiques to regularly update their RCSAs, as well as monthly KRIs and prompt reporting of any significant financial impacts as a result of errors.

Risk Management performs monitoring appropriate to the business and identified risks, which includes KRI reporting, significant event analysis and ad hoc reviews. Moreover, the key elements of the RCSA, internal control environment, monitoring and governance arrangements are routinely reviewed and challenged by the Risk & Compliance Committee.

4.2 Market Risk

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

None of the IMEH group regulated entities are authorised to trade on their own account or to underwrite issues of financial instruments. Market risk capital arises due to non-trading exposures in non-functional currencies, and when investments in equities and in collective investment undertakings (CIU) are held to launch new products or as investments (e.g. holdings in cash funds). These are accounted for at their market value.

4.3 Interest Rate Risk in Non Trading Book

Interest Rate Risk (IRR) is the risk associated with changes in interest rates that affect net interest income (NII) from interest-earning assets and interest-paying liabilities. For regulatory purposes, interest rate risk is monitored in the trading portfolio and non-trading book separately. IRR exposure in the non-trading book arises from on and off-balance sheet assets and liabilities, and changes with movements in domestic and foreign interest rates.

IMEH group does not have a significant exposure to IRR although it continues to monitor through the financial control framework which will identify any change in the exposure.

4.4 Credit Risk

Credit risk is the risk of default from counterparties or clients for deposits, loans, commitments, securities and other assets where the realisation of the value of the asset is dependent on its ability to perform.

Assets subject to credit risk for the IMEH group typically comprise deposits and group undertakings with BNY Mellon London Branch, deposits with external banks and fee receivables from clients. Cash deposits, typically the Boutique's accumulated profits, are held under a variety of arrangements including deposits with Bank of New York Mellon (London Branch). However, each Boutique holds a liquidity buffer equivalent to at least twice the calculated Fixed Overhead Requirements (FOR), calculated under FCA Rules, outside the BNY Mellon Group – insulated from the risk of BNY Mellon failure.

4.4.1 Credit Risk Exposure

The following credit risk exposure tables (1) to (4) summarise the credit exposure for IMEH group by exposure class, credit quality steps, geographic area and residual maturity. All data as at 31 December 2016

Table 1: Standardised gross credit exposure by exposure class

Exposure Class (£'000)	Exposure at Default (EAD) pre Credit Risk Mitigation (CRM)		Average EAD pre CRM		Standardised Credit Risk Capital Requirement	
	2016	2015	2016	2015	2016	2015
Central governments or central banks	-	-	-	-	-	-
Institutions	1,901,359	1,445,696	1,796,026	1,436,696	30,422	23,131
Corporates	449,512	485,084	396,964	499,863	35,961	38,807
Short term claims on Institutions and Corporates	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-
Other	9,100	125,246	88,349	119,638	728	6,433
Total	2,359,971	2,056,025	2,281,339	2,056,197	67,111	68,371

Table 2: Standardised Gross Credit Exposure by Geographic Area

Exposure Class (£'000)	Europe		Americas		Africa		Asia Pacific		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Central governments or central banks	-	-	-	-	-	-	-	-	-	-
Institutions	1,900,539	1,444,013	820	1,679	-	-	-	3	1,901,359	1,445,696
Corporates	432,809	470,916	7,631	7,554	-	-	9,072	6,613	449,512	485,084
Short term claims on Institutions and Corporates	-	-	-	-	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-	-	-	-	-
Other items	9,100	125,246	-	-	-	-	-	-	9,100	125,246
Total	2,342,448	2,040,175	8,451	9,234	-	-	9,072	6,616	2,359,971	2,056,025

Table 3: Standardised Gross Credit Exposure by Residual Maturity

Exposure Class (£'000)	Less than 3 months		3 months to 1 year		Over 1 year or unidentified		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Central governments or central banks	-	-	-	-	-	-	-	-
Institutions	1,901,359	1,445,696	-	-	-	-	1,901,359	1,445,696
Corporates	449,512	485,084	-	-	-	-	449,512	485,084
Short term claims on institutions and Corporates	-	-	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-	-	-
Other items	-	-	9,100	125,246	-	-	9,100	125,246
Total	2,350,871	1,930,780	9,100	125,246	-	-	2,359,971	2,056,025

4.4.2 Past-Due Assets and Provisions

As at December 31, 2016, IMEH or any of the underlying boutiques had no material assets past-due greater than 90 days. Neither IMEH nor any of the underlying Boutiques incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year to December 31, 2016.

4.5 Counterparty Credit Risk

Counterparty credit risk is the risk that a counterparty to a contract recorded in either the trading book or non-trading book defaults before fulfilment of cash-flow obligations.

The IMEH group computes counterparty credit risk capital at Pillar 1 using the Counterparty Credit Risk (CCR) mark-to-market method as per the FSA's BIPRU 13.4. Although the group has no trading book, as at 31 December 2016 IMEH had some derivative positions which it had entered into in order to hedge the impact on its revenue of market and economic factors. The positions are swaps and index futures with high credit quality institutions attracting, under the simplified approach to credit risk, a 20% risk weight.

Table 4: Counterparty Credit Risk

Type of a derivative position	Weighting	Risk Weighted Assets	CCR
Interest swap	20%	287,303	22,984
Equity swap	20%	103,680	8,294
Inflation swap	20%	3,656,897	292,552
Index Futures	20%	125,115	10,009
Total	-	4,172,994	333,840

IMEH may be exposed to wrong way risk due to some derivative positions it entered.¹ This risk can be associated with financial collateral, or with transactions where the underlying trade or secured loan is associated or correlated with the creditworthiness of the counterparty. In IMEH Group wrong way risk is managed at the legal entity level in line with the BNYM Policy on Wrong Way Risk; in particular counterparties and transactions are subject to country limits and to credit limits by product type and there is an escalation procedure in place for any trades that fall outside of these criteria.

4.6 Liquidity Risk

Liquidity Risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The IMEH group currently has sufficient cash and current assets to meet its liabilities when they fall due; current and projected cash deposits are able to cover current and long term liabilities. Management fees provide the major source of funds with payment of staff and administrative expenses being the principal uses of funds. Net operating cash flows are projected to be positive and no financing requirements are anticipated. There is minimal risk to the source and use of the funds as there are no deposit-taking activities or loans to clients, and there are no derivatives or off-balance sheet exposures apart from FX forward contracts or other hedges for risk management purposes. Other exceptional activities such as acquisitions are funded either through existing cash resources or from the BNY Mellon group through debt and/or equity.

4.7 Outsourcing Risk

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

¹ Wrong way risk exists when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty itself.

Each Investment Management Boutique has implemented an Outsourcing Policy which details certain minimum standards that should be adopted when considering or dealing with a service and/or activity that is outsourced to another legal entity, either within the BNYM Group or to an external provider and establishes a framework for evaluating and analysing outsourcing projects.

4.8 Reputation Risk

Reputation risk is the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators.

In addition to the reputational contagion, reputational risk to the Asset Management brand will present itself as a loss of confidence by its clients. Consistent poor performance over a period of time, operational events that occur without appropriate remedy and are perceived by clients to be systemic weaknesses in controls, or a loss of key investment managers are all possible reasons for a loss of confidence. It is recognised that IMEH does not conduct any operational activity to generate risks in its own right; therefore the risk is that such situations could occur within the Boutiques.

5 Capital Resources and Requirements

IMEH and its subsidiaries that fall within the scope of BIPRU regime are required to calculate their Pillar 1 capital requirements as larger of Fixed Overhead Requirement (FOR) or the sum of credit and market risk capital resource requirements.

5.1 Available Capital Resources

The following table summarises the capital resources for IMEH as at 31 December 2016.

Table 5: Capital Resources

Capital Resources as at 31 December 2016 (£'000)	IMEH	
	2016	2015
Tier 1 Capital	-	-
Called up Share Capital	2,484,730	2,484,730
Retained Earnings and Other Reserves	284,519	135,516
Total Tier 1 Capital	2,769,249	2,620,246
Deductions from Tier 1 Capital	-	-
Intangible Assets	- 1,298,169	- 1,221,401
Total Tier 1 Capital After Deductions	1,471,080	1,398,845
Total Tier 2 Capital		
Deductions from Total of Tiers 1 and 2 Capital	-	-
Material Holdings	-	-
Total Capital Resources	1,471,080	1,398,845

5.2 Pillar 1 Capital Requirements

IMEH calculates its Pillar 1 capital resource requirements are calculated as the larger of Fixed Overhead Requirement (FOR) or the sum of credit risk and market risk capital resource requirements.

The following table details the Pillar 1 capital requirements by exposure class for IMEH as at 31 December 2016.

Table 6: Pillar 1 Capital Requirements by Risk Type

Capital Requirements and Adequacy As at 31 December (£'000)	2016	2015
Credit Risk Capital requirements	67,111	68,371
Counterparty Risk Capital Component	334	451
Market Risk Capital Requirement	28,210	27,985
Total Market Risk and Credit Risk Requirement	95,655	96,807
Fixed Overhead Requirement	74,809	116,195
Pillar 1 Capital Requirement	95,655	116,195
Total Capital Resources	1,474,801	1,398,845
Capital Surplus	1,375,426	1,282,650
Total Capital Resources / Total Pillar 1 Capital Requirements	1538%	1204%

5.3 Pillar 2 Capital Requirements

Pillar 2 Capital Requirements are quantified as part of the Internal Capital Adequacy Assessment Process (ICAAP). The main purpose of Pillar 2 is to identify risks pertinent to IMEH operations yet not covered under Pillar 1 and to determine if it is required to hold any additional capital because of these risks.

The risks assessed under Pillar 2 are credit and market risk, operational risk, interest rate risk, business risk and other risks relevant to balance sheet items. Operational risk capital requirement is derived from a model-based assessment which uses internal and external loss data and a forward-looking scenario analysis. Given the non-complex nature of IMEH credit and market risk, Pillar 2 requirements are calculated on the same basis as Pillar 1 requirements using the standardised methodology. Business risk is considered by applying a severe market downturn scenario to existing balances and financial forecasts over a five year period.

In addition IMEH performs an orderly wind-down analysis based on a uniform scenario applied to all firms within the consolidation group.

The overall internal capital adequacy is determined by taking the highest of Pillar 1, Pillar 2 or orderly wind-down scenario. Where Pillar 2 or orderly wind-down analysis result in a higher capital determination than Pillar 1, IMEH holds additional capital at the consolidated level and at the level of regulated entities forming the IMEH Group.

6 Remuneration Disclosure

6.1 Governance

The governance of remuneration matters for BNYM and its group entities, including BNY Mellon Investment Management Europe Holdings Limited (“IMEH”) and its businesses, which is regulated by the Financial Conduct Authority (“FCA”), is overseen by four committees, each with separate responsibilities in respect of remuneration as summarised below:

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

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

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

Boutique / Business Remuneration Committees have delegated responsibility for remuneration matters from the relevant Boards of businesses within the IMEH group. In consultation with the COC, they are responsible for remuneration policy decisions and the approval of year-end compensation awards for respective regulated staff members. This process includes formal input from risk and compliance when determining the amount of any variable incentive awards.

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

6.2 Aligning Pay with Performance

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

Through compensation philosophy and principles, they align the interests of its employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value. By rewarding success and by ensuring that its compensation arrangements do not encourage employees to take unnecessary or excessive risks that threaten the values of the IMEH businesses and BNY Mellon or benefit individual employees at the expense of shareholders or other stakeholders. The compensation structures are comprised of an appropriate mix of fixed and variable compensation that is paid over time. They aim to ensure that both fixed and variable compensation are

consistent with business and market practice, fixed compensation is sufficient to provide for a fully flexible variable compensation program, and variable compensation is in the form of annual and/or long-term incentives, where appropriate.

6.3 Fixed Remuneration

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

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

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

6.4 Ratio between Fixed and Variable Pay

The IMEH group is regulated by the FCA and complies with all applicable remuneration requirements. The businesses within the IMEH group are all within the scope of the BIPRU Remuneration Code and are also proportionality level three firms. As such they apply the provisions of the BIPRU Remuneration Code in line with the guidance on proportionality applicable under SYSC 19C.

6.5 Variable Compensation Funding and Risk Adjustment

IMEH staff are eligible to be awarded variable compensation, but have no entitlement to such awards which are discretionary in nature.

In general the total compensation pool for each of the IMEH businesses, including any variable incentive pool, is based on the profitability of the business with the potential for adjustment by the COC on the basis of a number of factors including risk management.

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

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

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

The deferred component is intended to align a portion of the variable compensation award with the management of longer-term business risk. The deferred compensation component is generally awarded in the form of either BNY Mellon restricted stock units, deferred cash award invested in an appropriate vehicle which is considered suitable, boutique equity or any combination determined appropriate from time to time.

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

6.6 Deferral Policy and Vesting Criteria

For more senior-level employees, a portion of variable compensation will be deferred, under ordinary circumstances for a period of at least three years (albeit such compensation may be deferred on a pro-rata basis for alternative periods), and will be subject to the performance of either (or both) BNY Mellon or the respective business. The deferred component of the variable compensation award is usually delivered as either deferred cash award invested in an appropriate vehicle which is considered suitable, boutique equity or any combination determined appropriate from time to time. The percentage of the variable compensation award to be deferred depends on the level of the position, regulatory requirements and the amount.

6.7 Variable Remuneration of Control Function Staff

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

6.8 Quantitative Disclosures

The tables below provide details of the aggregate remuneration of senior management² and MRTs for the IMEH group for the year ended 31 December 2016.

For completeness, this group of staff is limited to those considered to be Material Risk Takers. The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of the IMEH businesses to reflect the full reporting period.

Table 7: Aggregate Remuneration Expenditure for MRTs in 2016 by Business (£'000)

This table shows the total aggregate remuneration expenditure for MRTs by business for 2016 (£000s).

	IMEH		
	Asset Management	Other ³	Total
Total remuneration	102,013	0	102,013

Table 8: Aggregate Remuneration Expenditure for MRTs by Remuneration Type

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

	IMEH		
	Senior management	Other MRTs	Total
Number of beneficiaries	32	81	113
Fixed remuneration ⁴	6,508	12,094	18,602
Total variable remuneration (£000's)	45,220	33,992	79,212
Variable cash (£000's)	30,208	20,638	50,846
Variable shares (£000's)	15,012	13,354	28,366

² Senior Management is comprised of MRTs categorized as "Senior Managers" who carry out a senior management function as determined by the relevant regulators.

³ Includes all support functions and general management positions.

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

Table 9: Total Deferred Variable Remuneration for MRTs Outstanding from Previous Years

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

	IMEH		
	Senior management	Other MRTs	Total
Number of beneficiaries	30	74	104
Total deferred variable remuneration outstanding from previous years (£000's)	45,170	44,311	89,481
Total unvested (£000's)	45,170	44,311	89,481

Table 10: New Sign-on and Severance Payments

This table shows the number and value of new sign-on and severance payments made during 2016.

	IMEH		
	Senior management	Other MRTs	Total
Number of sign-on payments awarded	1	1	2
Value of sign-on payments awarded (£000's)	1,000	50	1,050
Number of severance payments awarded	3	2	5
Value of severance payments awarded (£000's)	414	175	590
Highest individual severance payment awarded (£000's)	241	145	386

Table 11: Number of Individuals being Remunerated EUR 1 million or more

This table shows the number of individuals being remunerated €m or more.

Number of individuals being remunerated ≥ EUR 1m	IMEH
EUR 1m – EUR 1.5m	19
EUR 1.5m – EUR 2m	2
EUR 2m – EUR 2.5m	4
EUR 3.5m – EUR 4m	1
EUR 4.5m – EUR 5m	1
EUR 5m – EUR 5.5m	2
EUR 9m – EUR 9.5m	2



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