BNY MELLON

BNY Mellon Markets Europe Limited

Pillar 3 Disclosure

December 31, 2018

bnymellon.com

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Any discrepancies between the totals and sums of components within the tables and graphs within this report are as a result of roundings.

Appendices

Executive summary

1 Article 431 CRR - Scope of disclosure requirements

1.1 Disclosure policy

This document comprises the BNY Mellon Markets Europe Limited ('BNY Mellon MEL' or the Company) Pillar 3 disclosures on capital and risk management at 31 December 2018. These Pillar 3 disclosures are published in accordance with the requirements of the Capital Requirements Regulation ('CRR') and the Capital Requirements Directive ('CRD'), referred to together as CRD IV, which came into effect on 1 January 2014. CRD IV has the effect of implementing the international Basel III reforms of the Basel Committee on Banking Supervision within the European Union. The Pillar 3 disclosure requirements are contained in Part Eight of the CRR, in particular articles 431 to 455.

Pillar 3 disclosures are required for a consolidated group and for those parts of the group covered by CRD IV. When assessing the appropriateness of these disclosures in the application of Article 431(3) of the CRR, BNY Mellon MEL has ensured adherence to the following principles of:

Clarity	**Meaningfulness**
Consistency over time	**Comparability across institutions**

The Basel Committee on Banking Supervision ('BCBS') requires these disclosures to be published at the highest level of consolidation. BNY Mellon MEL has adopted this approach as it has no subsidiaries to consolidate.

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

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

The following risk metrics present BNY Mellon MEL's key risk components as at 31 December 2018. Please see section 1.8 for the full comprehensive list of capital ratios.

Common Equity Tier 1 ('CET1') ratio	297.2%
Tier 1 capital ratio	297.2%
Total capital ratio	297.2%
Basel III leverage ratio (This ratio is for information only. BNY Mellon MEL is not subject to a binding leverage requirement)	99.8%

CET1 ratio	=	CET1 capital / Pillar 1 RWAs
Tier 1 ratio	=	Tier 1 capital / Pillar 1 RWAs
Total capital ratio	=	Total capital / Pillar 1 RWAs
Basel III leverage ratio	=	Capital measure / Exposure measure

1.2 The Basel III framework

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

Pillar 1 - Minimum capital requirement:

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

Pillar 2 - Supervisory review process:

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

Pillar 3 - Market discipline:

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

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

1.3 Purpose of Pillar 3

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

Credit risk	**Counterparty credit risk**	**Asset encumbrance**	**Operational risk**
Market risk	**Interest rate risk**	**Securitisation risk**	**Leverage**

These Pillar 3 disclosures focus only on those risk and exposure types relevant to BNY Mellon MEL.

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

1.4 Article 432 CRR - Non-material, proprietary or confidential information

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

Furthermore, the Board may omit one or more disclosures if the information provided is regarded as proprietary or confidential. Information is regarded as proprietary if disclosing it publicly would undermine the competitive position of a company. It may include information on products or systems which, if shared with competitors, would render an institution's investment therein less valuable. In such circumstance, the Board will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure. In addition it will publish more general information about the subject matter of the disclosure requirement except where this is classified as confidential.

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

1.5 Article 433/434 CRR - Frequency and means of disclosure

Disclosure will be made annually based on calendar year-end and will be published in conjunction with the preparation of the Annual Report and Financial Statements. BNY Mellon MEL 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 will be reassessed periodically and updated in light of market developments associated with Pillar 3.

Disclosures are published on The Bank of New York Mellon Corporation group website which can be accessed using the link below:

BNY Mellon Investor Relations - Pillar 3

1.6 Board approval

These disclosures were approved for publication by the Board on 24 June 2019. The Board approved the adequacy of BNY Mellon MEL's risk management arrangements, providing assurance that the risk management systems put in place are adequate with regard to BNY Mellon MEL's profile and strategy.

1.7 Key 2018 and subsequent events

During the 2018 calendar year the Company applied to the Central Bank of Ireland for a license to operate a Multilateral Trading Facility. The application was approved in December 2018 and the Company expects to commence trading in 2019.

The Company remains well capitalised with considerable financial resources primarily held in cash at a related bank counterparty.

1.8 Key metrics

The following are considered key metrics for BNY Mellon MEL:

Table 1: KM1 - Key metrics

Own Funds	2018
Available capital (€000s)[1]	
Common Equity Tier 1 (CET1) capital	19,671
Tier 1 capital	19,671
Total capital	19,671
Risk-weighted assets (€000s)[2]	
Total risk-weighted assets (RWA)	6,619
Risk-based capital ratios as a percentage of RWA	
CET1 ratio	297.2%

Own Funds	2018
Tier 1 ratio	297.2%
Total capital ratio	297.2%
Additional CET1 buffers requirements as a percentage of RWA	
Capital conservation buffer requirement	1.875%
Countercyclical capital buffer	—%
CET1 available to meet buffers after meeting the bank's minimum capital requirements, and, if applicable, TLAC requirements	289.2%
Basel III leverage ratio	
Total Basel III leverage ratio exposure measure (€000s)	19,708
Basel III leverage ratio	99.8%

[1] 2018 capital as stated is after the inclusion of audited losses for the year.
[2] 2018 RWAs include the latest operational risk RWAs, updated in line with the audited results for the year.

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

1.9 Article 436 CRR - Scope of application

BNY Mellon Group ('BNY Mellon') is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of 31 December 2018, BNY Mellon had $33.1 trillion in assets under custody and/or administration, and $1.7 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE: BK). Additional information is available on *www.bnymellon.com*. Follow us on Twitter *@BNYMellon* or visit our newsroom at *www.bnymellon.com/newsroom* for the latest company news.

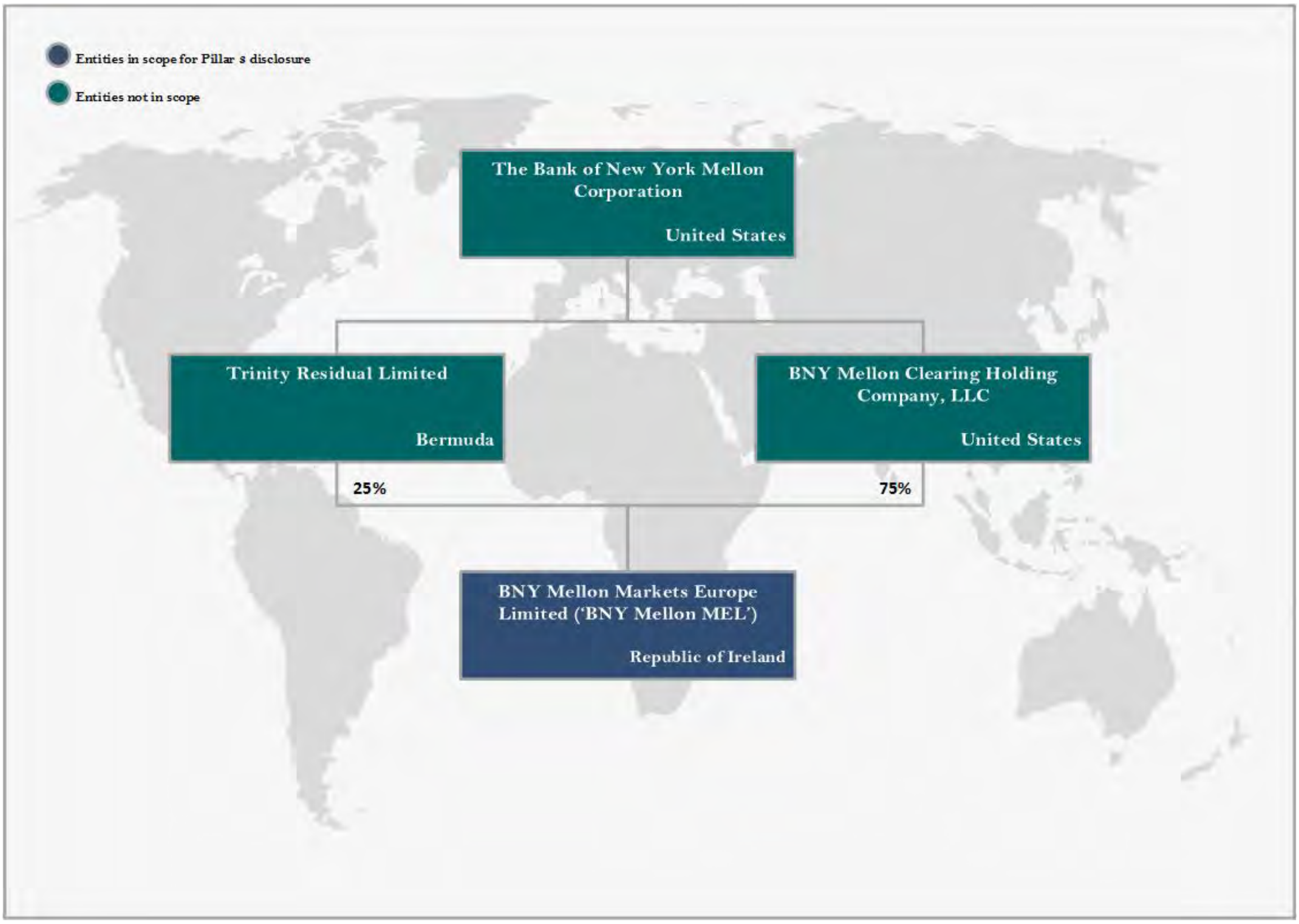
BNY Mellon MEL is an Irish incorporated company, wholly owned by BNY Mellon.

The immediate parent undertaking of the Company is BNY Mellon Clearing Holding Company, LLC, a company registered in the United States of America holds a 75% stake in the Company and the residual 25% is held by Trinity Residual Limited, company incorporated under the laws of Bermuda.

BNY Mellon MEL operates within the Markets Group ('Markets') division of BNY Mellon, which consists of the foreign exchange, collateral services, securities lending, prime services and capital markets.

The legal entity structure of BNY Mellon MEL is illustrated in Figure 1.

Figure 1: BNY Mellon MEL legal entity structure at 31 December 2018



Basis of consolidation

Entity name	Consolidation basis	Services provided
BNY Mellon Markets Europe Limited ('BNY Mellon MEL')	No subsidiaries for consolidation	The strategic focus of the business is to establish a Multilateral Trading Facility and the provision of innovative solutions to existing and new clients.

1.10 Core business lines

The strategic focus of the business is to establish a Multilateral Trading Facility and the provision of innovative solutions to existing and new clients.

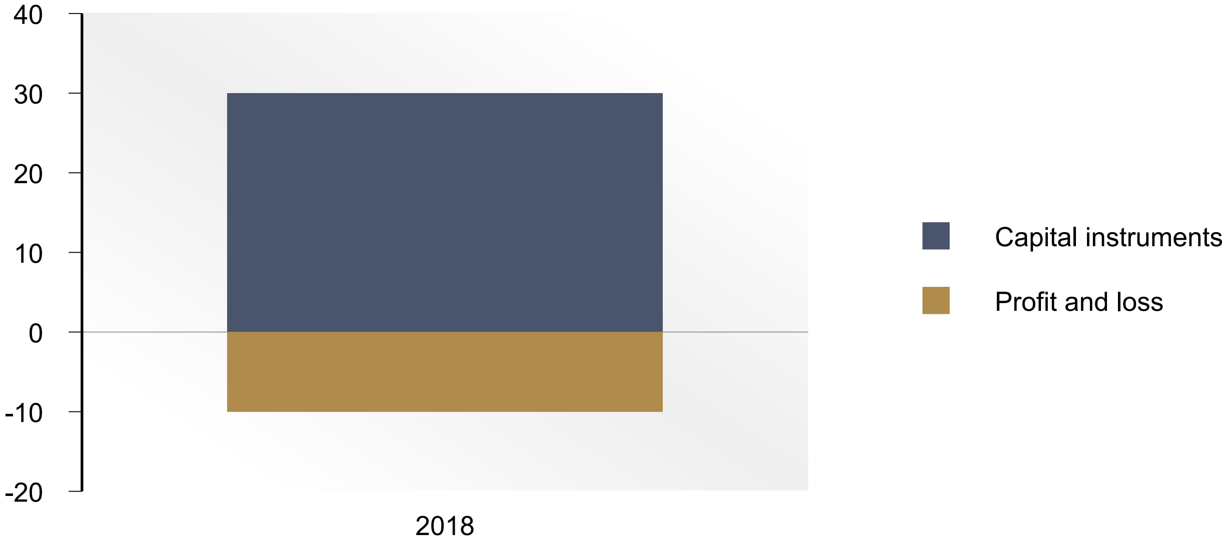
Capital

2 Article 437 CRR - Own funds

The following risk metrics present BNY Mellon MEL's key risk components as at 31 December 2018.

Total assets (€000s)	€19,708
Common Equity Tier 1 capital (€000s)	€19,671
Total own funds (€000s)	€19,671
Total risk-weighted assets (€000s)	€6,619

Composition of regulatory capital (€m)



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

BNY Mellon MEL's regulatory capital is defined by CRD IV and includes:

- **Common equity tier 1 capital** which is the highest quality form of regulatory capital under Basel III comprising common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments

Table 2: CC2 - Reconciliation of regulatory capital

These tables show a reconciliation of BNY Mellon MEL's balance sheets on a consolidated basis prepared in accordance with FRS 101: Reduced Disclosure Framework and the regulatory balance sheet prepared under prudential rules. The regulatory balance sheet forms the basis for the calculation of regulatory capital requirements.

At 31 December 2018 (€000s)	Statutory accounts balance sheet	Regulatory adjustments	Regulatory balance sheet
Assets			
Cash at bank and in hand	19,708	—	19,708
Total assets	**19,708**	**—**	**19,708**
Liabilities			
Amounts due to group undertakings	5	—	5
Accruals and deferred income	31	—	31
Other creditors	1	—	1

At 31 December 2018 (€000s)	Statutory accounts balance sheet	Regulatory adjustments	Regulatory balance sheet
Total liabilities	**37**	**—**	**37**
Shareholders' equity			
Called up share capital	1,000	—	1,000
Capital contribution	29,000	—	29,000
Profit and loss	(10,329)	—	(10,329)
Other reserves	—	—	—
Equity	**19,671**	**—**	**19,671**
Total equity and liabilities	**19,708**	**—**	**19,708**

Table 3: EU LI1 - Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

			Carrying values of items				
At 31 December 2018 (€000s)	**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory consolidation**	**Subject to the credit risk framework**	**Subject to the CCR framework**	**Subject to the securitisation framework**	**Subject to the market risk framework**	**Not subject to capital requirements or subject to deduction from capital**
Cash at bank and in hand	19,708	19,708	19,708	—	—	19,708	—
TOTAL ASSETS	**19,708**	**19,708**	**19,708**	**—**	**—**	**19,708**	**—**
Amounts due to group undertakings	5	—	—	—	—	5	—
Accruals and deferred income	31	—	—	—	—	31	—
Other creditors	1	—	—	—	—	1	—
TOTAL LIABILITIES	**37**	**—**	**—**	**—**	**—**	**37**	**—**

Table 4: EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

At 31 December 2018 (€000s)	Total	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**39,416**	19,708	—	—	19,708
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	**37**	—	—	—	37
Total net amount under the regulatory scope of consolidation	**39,379**	19,708	—	—	19,671
Off-balance-sheet amounts	**—**	—	—	—	—
Differences in valuations	**—**	—	—	—	—
Differences due to different netting rules, other than those already included in row 2	**—**	—	—	—	—
Differences due to consideration of provisions	**—**	—	—	—	—
Differences due to prudential filters	**(19,608)**	—	—	—	(19,608)
Difference not subject to capital requirements or subject to deduction from capital	**—**	—	—	—	—
Exposure amounts considered for regulatory purposes	**19,771**	19,708	—	—	63

Table 5: CC1 - Composition of regulatory capital

This table shows the composition of regulatory capital including all regulatory adjustments at 31 December 2018.

Own funds (€000s)	2018	2017
Common Equity Tier 1 (CET1)		
Capital instruments	30,000	—
Profit and loss	(10,329)	—
Other comprehensive income	—	—
Reserves and others	—	—
CET1 adjustments	**—**	**—**
Total CET1	19,671	—
Additional Tier 1 capital (AT1)		
Capital instruments	—	—
Others	—	—
AT1 adjustments	—	—

Own funds (€000s)	2018	2017
Total AT1	—	—
Total Tier 1	19,671	—
Tier 2 capital (T2)		
Capital instruments and subordinated loans	—	—
Others	—	—
T2 adjustments	—	—
Total T2 capital	—	—
Total own funds	19,671	—

Table 6: TLAC1 - Transitional own funds

The table below shows the transitional own funds disclosure at 31 December 2018.

BNY Mellon MEL (€000s) Equity Instruments, Reserves and Regulatory Adjustments	Amount at disclosure date
CET1 capital: Instruments and Reserves	
Capital instruments and the related share premium accounts	30,000
of which: ordinary shares	1,000
of which: capital contribution	29,000
Retained earnings	(10,118)
CET1 capital before regulatory adjustments	**19,882**
CET1 capital: regulatory adjustments	
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities	—
Losses for the current financial year	**(211)**
Total regulatory adjustments to CET1	19,671
CET1 capital	**19,671**
AT1 capital	**—**
Tier 1 capital	19,671
Tier 2 (T2) capital: Instruments and provisions	
Total regulatory adjustments to T2 capital	**—**
T2 capital	**—**

BNY Mellon MEL (€000s) Equity Instruments, Reserves and Regulatory Adjustments	Amount at disclosure date
Total capital	**19,671**
Total risk-weighted assets	**6,619**
Capital ratios and buffers	
CET1 (as a percentage of risk exposure amount)	297.2%
T1 (as a percentage of risk exposure amount)	297.2%
Total capital (as a percentage of risk exposure amount)	297.2%
of which: capital conservation buffer requirement	—
CET1 available to meet buffers (as a percentage of risk exposure amount)	289.2%
Amounts below the thresholds for deduction (before risk-weighting)	
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	—

Table 7: CCA - Main features of regulatory capital instruments

This table provides a description of the main features of regulatory instruments issued at 31 December 2018 and included as either tier 1 or tier 2 capital in *Table 5.*

Capital instruments main features (1)	Ordinary shares issue denominated in Euro
Issuer	BNY Mellon Markets Europe Limited
Governing law(s) of the instrument	Irish
Regulatory treatment	
Transitional CRR rules	Not applicable
Post-transitional CRR rules	Common Equity Tier 1
Instrument type	Ordinary Shares
Amount recognised in regulatory capital	€1 million
Nominal amount of instrument	€1 million
Issue price	€1 million
Redemption price	Not applicable
Accounting classification	Shareholders' equity
Original date of issuance	December 2018
Perpetual or dated	No maturity
Issuer call subject to prior supervisory approval	No

Capital instruments main features [1]	Ordinary shares issue denominated in Euro
Coupons / dividends	
Fixed or floating dividend/coupon	Not applicable
Coupon rate and any related index	Not applicable
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
Existence of step up or other incentive to redeem	No
Write-down features	No
Non-compliant transitioned features	No

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

Capital and reserves

	2018	2017
Authorised	€	€
1,000,000 ordinary shares of €1 each	1,000,000	1,000,000
Allotted, called up and fully paid		
1,000,000 ordinary shares of €1 each	1,000,000	1,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

3 Article 438 CRR - Capital requirements

The following risk metrics present BNY Mellon MEL's key risk components as at 31 December 2018.

Total risk exposure amount (€000s) €6,619

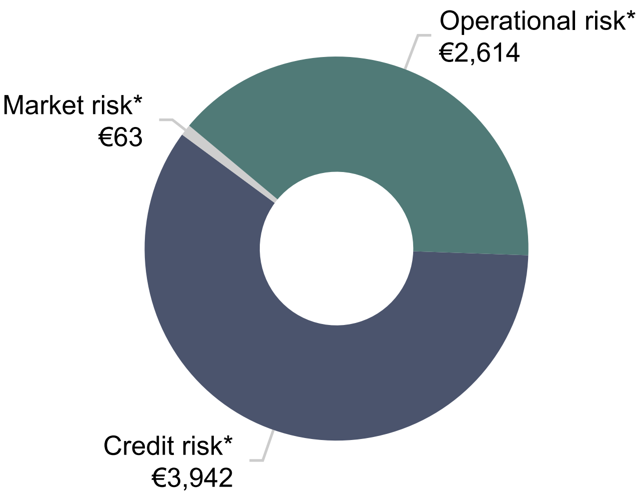
Total capital requirement (€000s) €530

BNY Mellon MEL shall comply with the requirements laid down in Article 92 of this Regulation and in Article 73 of Directive 2013/36/EU. (Article 92 Own funds requirements to satisfy (a) a Common Equity Tier 1 capital ratio of 4.5 %; (b) a Tier 1 capital ratio of 6 %; (c) a total capital ratio of 8 %)

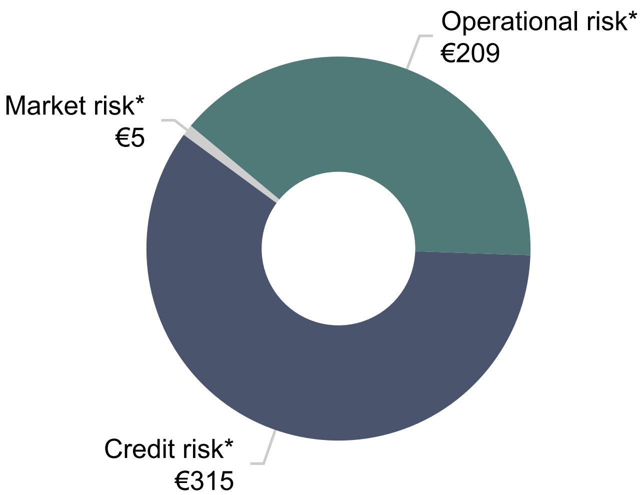
Under the Capital Requirements Regulation 575/2013 ('CRR'), BNY Mellon MEL operating as a Multilateral Trading Facility ('MTF') is to hold own funds of the higher of:

1. 8% of the risk-weighted exposure amounts for each of the exposure classes *OR*
2. Fixed Overhead Requirements (eligible capital of at least one quarter of the fixed overheads of the preceding year) or
3. €730k minimum capital

Risk exposure by risk type at 31 December 2018 (€000s)



Capital requirements by risk type at 31 December 2018 (€000s)



* Standardised approach

3.1 Calculating capital requirements

CRD IV allows for different approaches for calculating capital requirements. The standardised approach is used for calculating the risk-weights assigned to each risk component including credit risk, counterparty credit risk, market risk and operational risk.

Table 8: EU OV1 - Overview of RWAs

This table shows the risk-weighted assets for BNY Mellon MEL using the standardised approach and their respective capital requirements.

	Risk exposure amount	Capital requirements
Type of risk (€000s)	**31-Dec-18**	**31-Dec-18**
Credit risk*	3,942	315
Counterparty credit risk*	—	—
Settlement risk	—	—
Market risk*	63	5
of which: Foreign exchange position risk	63	5
Operational risk*	2,614	209
of which: Standardised approach	2,614	209
Credit Valuation Adjustment*	—	—
Total	**6,619**	**530**
Total capital		19,671
Surplus capital		19,141

*Standardised approach.

BNY Mellon MEL's capital management strategy is to maintain appropriate capital commensurate with the risks and business strategy of the firm and to ensure capital is sufficient to meet the risk appetite requirements in relation to the regulatory expectations.

Risk

4 Article 435 CRR - Risk management objectives and policies

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

BNY Mellon has developed an enterprise risk management program that is designed to ensure that:

- Risk limits are in place to govern its risk-taking activities across all businesses and risk types
- Risk appetite principles are incorporated into its strategic decision making processes
- Monitoring and reporting of key risk metrics to senior management and the Board takes place; and
- There is a capital planning process which incorporates both economic capital modelling and a stress testing programme

The BNY Mellon MEL Board has adopted a conservative risk appetite to maintain a strong capital position and balance sheet throughout all market cycles with strong liquidity, superior asset quality and a robust capital structure whilst delivering operational excellence to meet stakeholders' expectations.

4.1 Board of Directors

The responsibilities of the Board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The Board's actions are subject to laws, regulations and the shareholder in a general meeting.

The Board is responsible for:

- the effective, prudent and ethical oversight of the Company
- setting the business strategy for the Company
- ensuring that risk and compliance are proper, and managed in the Company

The Board meets at least quarterly and the directors who served during 2018 were:

Board member	Function at BNY Mellon MEL	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 BNY Mellon MEL (Y/N)
B Walsh	Executive Director and Chief Executive Officer						
J Duffy	Non-Executive Director						

Note: M O'Conner was appointed as a Independent Non-Executive Director and Chairperson on 1 February 2019

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

4.2 Risk governance

The BNY Mellon MEL Board is the senior strategic and decision making body. The Board delegates day to day responsibility for managing the business to the Operating Committee ('OpCom') according to approved plans, policies and risk appetite.

BNY Mellon MEL Operating Committee

This committee is a forum for the business and control partners to review and challenge the business performance, operations and risk. The OpCom collates, reviews and challenges the updates provided by representatives of the first, second and third lines of defence.

The OpCom escalates issues and presents approval requests to the Board. The Board delegates operational oversight and challenge to the OpCom and any presentation to the Board will have undergone thorough analysis, review and challenge before being presented to the Board level.

The OpCom will notify the existing BNY Mellon EMEA Markets Business Acceptance Committee ('BAC') of any new business enabled under standard terms. It is expected that the vast majority of BNY Mellon MEL's new business will be entered into on standard terms and in accordance with this scenario. However, any proposed new business under non-standard terms will be referred to and must be approved by the BAC before agreements are executed (see "EMEA & APAC Markets Business Acceptance Committee ('BAC')" below).

The OpCom may also escalate risk issues and concerns to the existing BNY Mellon EMEA Markets Business Risk Committee ('BRC'). BNY Mellon MEL will also present a monthly briefing to this committee to detail activity and risk measures.

OpCom further delegates specific responsibilities to various committees and councils to provide an appropriate oversight and direction to various risk and regulatory processes and activities, including:

BNY Mellon MEL Risk and Capital Management Council

The purpose of the BNY Mellon MEL Risk and Capital Management Council ('RCMC') is to ensure:

- adequate oversight of the identification, assessment and monitoring of material risks
- that the firm holds appropriate capital reserves relative to those risks; and
- that BNY Mellon MEL continues to meet its Capital Assessment and Capital Planning regulatory requirements

The Council normally aims to meet quarterly and at a minimum of four times per year. Additional ad hoc meetings may be called with the agreement of the Chair. The attendees are the CEO and representatives from Capital Adequacy, Finance, Operations, Legal, Compliance and Risk.

EMEA & APAC Markets Business Acceptance Committee

BAC provides governance over new and modified direct business relationships for BNY Mellon Markets. The committee is focused on reviewing and approving non-standard relationships.

The purpose of the EMEA & APAC Markets Business Acceptance Committee ('BAC') is to:

- Review and approval of non-standard client contracts and market agreements
- Review and approval of binding requests for proposals ('RFPs') and service level agreements ('SLAs')
- Apply business acceptance process to new actions or business relating to systemically significant client relationships
- Review and approval of financial proposals being made to a new or existing client
- Review and approval of new or amended contractual commitments; and
- The Committee will consider the impact on resolvability of project proposals using the company's legal entity rationalization criteria as a reference

The Committee refers business proposals with the potential to impact resolvability to the Entity Governance Committee for consideration.

EMEA Markets Business Risk Committee

As a part of the Markets Line of Business, the appropriate governance forum for BNY Mellon MEL new products and services is the EMEA Markets Business Risk Committee.

The purpose of the EMEA Markets Business Risk Committee ('BRC') is to:

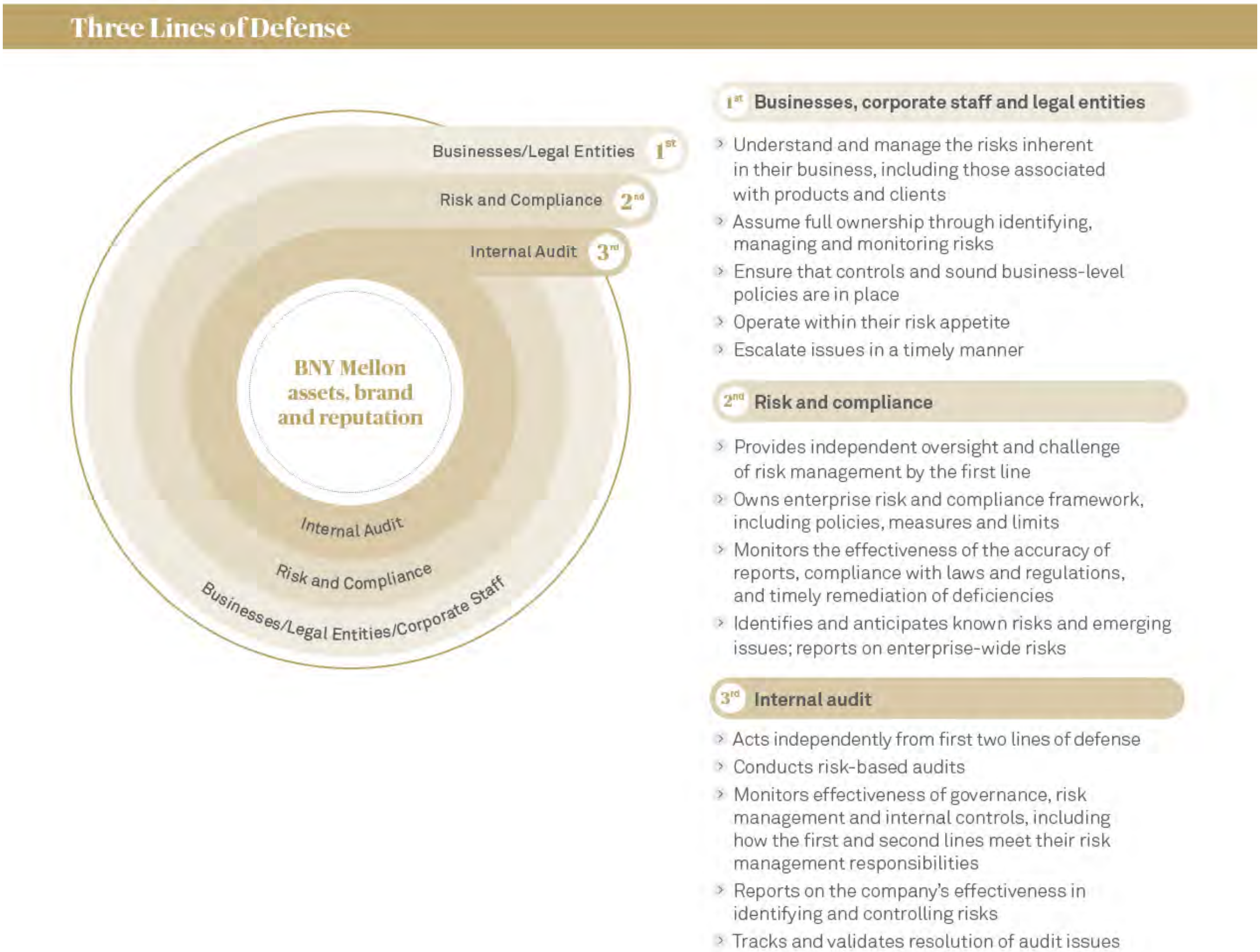
- Review key risk and control issues, and related initiatives
- Provide transparency of the key risk and control issues specific to EMEA
- Review, assess and approve new products and material changes to existing products
- Review key risks posed by current and future conflicts of interests
- Discuss and review the root cause analysis provided for significant operational losses
- Review key risk and key performance indicators
- Review material gaps identified and status of action plans from Risk and Control Self-Assessments and High-level Assessment
- Discuss material audit, regulatory, legal and compliance initiatives

4.3 Risk management framework

In line with global policy, BNY Mellon MEL has adopted the ‘Three Lines of Defense’ model in deploying its risk management framework (figure 3 below). The first line of defense ('1LOD') is the business or, in some cases, business partner level. The business takes and owns the risk associated with activities, and it manages the risks and the related control processes and procedures on an operational basis. The Risk Management and Compliance functions are the second line of defense ('2LOD') and own the enterprise-wide risk management framework and provide independent oversight of the 1LOD, ensuring that policies are adhered to and challenged. The third line of defense ('3LOD') is Internal Audit, which independently provides BNY Mellon MELs Board and senior management with the assurance that the governance structures, risk management and internal controls in place are effective.

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 and management information) and risk models oversight, in accordance with the BNY Mellon regional model and recognizing best market practice to ensure BNY Mellon MEL develops a well-controlled environment and an environment where risks as well understood and managed. This model encourages a proactive culture of managing risks across all risk teams.

Figure 3: Managing Three Lines of Defense



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

4.4 Risk appetite

The Risk Appetite Statement is an integral part of the management of BNY Mellon MEL and is governed by the BNY Mellon Corporate Policy.

BNY Mellon MEL is committed to ensuring that, in executing on its strategic and operational plans, it at all times operates within its own risk appetite. In order to achieve this, BNY Mellon MEL is committed to having a robust risk appetite process, risk appetite metrics that are monitored by the Operating Committee on a quarterly basis, and owned by the Board.

BNY Mellon MEL's Risk Appetite uses the BNY Mellon Risk Universe, which specifically uses the following material risk categories. Each of these risk categories is incorporated into the Risk Appetite Framework and Risk Appetite Statements in a manner consistent with the extent to which each risk category is relevant to the business being conducted:

- Strategic risk

- Operational risk
- Credit risk
- Market risk
- Liquidity risk

For each statement, we define a threshold or boundary value for acceptable risk exposure and the associated measures.

4.5 Risk register

The BNY Mellon MEL Risk Register is a risk management tool used for the identification, assessment, documentation and mitigation of the key risks associated with the legal entity.

The Risk Register is prepared and owned by the Legal Entity Risk Officer ('LERO'). Senior Risk Managers of each Line of Business ('LOB RMs'), Risk Management function heads (e.g. Credit Risk) and key representatives from the Lines of Business/Legal Entities contribute to the Risk Register sign off. The Risk Register is presented through the legal entity governance structures and is updated at least annually or upon significant change.

4.6 Risk culture

BNY Mellon MEL 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 BNY Mellon MEL.

Culture is the internal compass that guides actions and behaviours both within and outside of the formal risk framework. BNY Mellon prides itself on having a culture of conservative and prudent risk taking, placing the highest priority on operating within a well-defined risk appetite and management framework.

BNY Mellon culture values risk awareness, forthright and frequent communications, openness, constructive challenge, and ownership of risk and compliance in both the business and control functions. Risk culture principles at BNY Mellon include:

- thoroughly assessing risks
- escalating issues quickly
- recognizing that we cannot outperform our competitors unless we manage our risks effectively
- balancing risk against reward in everything that we do
- agreeing that communication and transparency are essential

4.7 Stress testing

Capital Stress testing is undertaken within BNY Mellon MEL to monitor and quantify risk exposures and capital requirements to ascertain whether or not there are sufficient capital resources on a forward-looking basis. The process involves developing stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to BNY Mellon MEL's risk profile and business activities. BNY Mellon MEL's stress testing programme assesses the capital strength and enhances the resilience to external shocks. It also helps senior management understand and mitigate risks, and informs decision about capital levels. The stress testing programme is overseen by the Capital and Stress Testing Group, and results are reported, where appropriate, to the Operating Committee and the Board.

4.8 Internal capital adequacy assessment process ('ICAAP')

An ICAAP document is produced at least annually for BNY Mellon MEL on a consolidated basis, including its subsidiaries. The process and document is owned by BNY Mellon MEL Board. The purpose of the ICAAP is to:

- Ensure the ongoing assessment and monitoring of the Company's risks and the approaches used to mitigate those risks, such that they remain within the Risk Appetite established by the Board of BNY Mellon MEL
- Determine the capital requirement for the residual risk exposure at the point when the assessment is made and also over the Company's three-year planning horizon, both under baseline and internally assessed stressed conditions
- Document the capital adequacy assessment process both for internal stakeholders and for prudential supervisors
- Provide the necessary information so that senior management, including the Board, can make decisions about the amount of capital that is required and the approach to risk management
- Provide on-going assessment and monitoring of BNY Mellon MEL's capital risks such that they remain within the risk appetite established by the Board
- Determine how much capital is likely to be necessary to support those risks at the moment the assessment is made and also over the firm's three-year planning horizon, both under baseline and stressed conditions; and
- Provide the necessary information so that senior management and the Board can make decisions about the amount of capital that is required and the approach to risk management that should be adopted

In addition to ensuring that there is sufficient capital to cover Economic Risk and to meet capital requirements under internally assessed stressed conditions, the Company's objective is also to maintain capital in excess of its Risk Appetite.

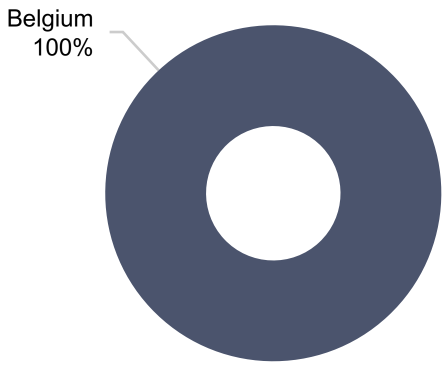
5 Article 442 CRR - Credit risk adjustments

The following risk metrics present BNY Mellon MEL's key risk components as at 31 December 2018.

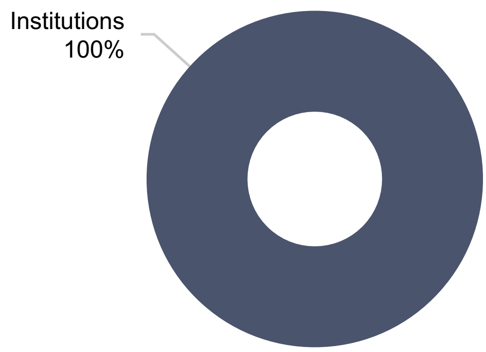
Standardised net credit exposure (€000s) €19,708

Total on- and off-balance sheet exposures (€000s) €19,708

Standardised net credit exposure by country at 31 December 2018



Standardised net credit exposure by counterparty at 31 December 2018



5.1 Definition and identification

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The Company's exposure to credit risk is limited to the default risk from Bank counterparties with which the Company holds its cash and debtors arising from its business operations.

Understanding, identifying and managing Credit risk is a central element of BNY Mellon's successful risk management approach. BNY Mellon MEL's Credit risk is managed in line with the BNY Mellon's Risk Appetite to minimise losses whilst identifying future potential risks.

5.2 Analysis of credit risk

BNY Mellon MEL's minimum credit risk capital requirement is calculated using the standardised approach and is expressed as 8% of risk-weighted exposures. Where available, issuer ratings from External Credit Assessment Institutions ('ECAI') are used in the determination of the relevant risk-weighting across all exposure classes. Where ECAI ratings differ, the more conservative rating is applied.

A breakdown of BNY Mellon MEL's credit risk exposures as at 31 December 2018 is provided below.

The definitions below may be used in the following tables:

- **Exposure at Default ('EAD')** is defined as the amount expected to be outstanding, after any credit risk mitigation, if and when a counterparty defaults. Exposure reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures over a one-year time horizon. As such, exposure in this context may differ from statutory IFRS accounting balance sheet carrying values
- **Credit Conversion Factor ('CCF')** converts the amount of a free credit line and other off-balance sheet transactions (with the exception of derivatives) to an EAD amount
- **Credit Risk Mitigation ('CRM')** is defined as a technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection
- **Geographic area** is based on the country location of the counterparty
- **Residual maturity** is defined as the period outstanding from the reporting date to the maturity or end date of an exposure

Table 9: EU CRB-B - Total and average net amount of exposures

The following tables show the credit risk pre-CRM techniques using the standardised approach by exposure class at 31 December 2018.

Exposure class (€000s)	Net value at the end of the period	Average net value over the period
Institutions	19,708	19,708
Other items	—	—
Total	**19,708**	**19,708**

Table 10: EU CRB-C - Geographical breakdown of exposures

This table shows the pre-CRM exposure by class and by geographic area of the counterparty.

31 December 2018 (€000s)	Belgium	Other	Total
Institutions	19,708	—	19,708
Other items	—	—	—
Total	**19,708**	**—**	**19,708**

Table 11: EU CRB-D - Concentration of exposures by counterparty types

This table shows the credit exposure pre-CRM classified by class and by counterparty type.

31 December 2018 (€000s)	General governments	Credit institutions	Other financial corporations	Various balance sheet Items	Total
Institutions	—	19,708	—	—	19,708
Other items	—	—	—	—	—
Total	**—**	**19,708**	**—**	**—**	**19,708**

Table 12: EU CRB-E - Maturity of exposures

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

31 December 2018 (€000s)	On demand	Less than 1 year	Less then 5 years	No stated maturity	Total
Institutions	19,708	—	—	—	19,708
Other items	—	—	—	—	—
Total	**19,708**	**—**	**—**	**—**	**19,708**

5.3 Analysis of past due and impaired exposures

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

The following tables provide an analysis of past due and impaired exposures using the following definitions:

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

As at 31 December 2018, BNY Mellon MEL had no material impaired assets for which a specific or general provision was required. There were no material assets past due greater than 90 days. BNY Mellon MEL did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year.

Table 13: EU CR1-A - Credit quality of exposures by exposure class and instrument

This table provides a comprehensive picture of the credit quality of on- and off-balance sheet exposures pre-credit risk mitigation.

Counterparty type 31 December 2018 (€000s)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Credit institutions	—	19,708	—	—	—	—	19,708
Total	**—**	**19,708**	**—**	**—**	**—**	**—**	**19,708**

Table 14: EU CR1-B - Credit quality of exposures by industry

This table provides a comprehensive picture of the credit quality of on- and off-balance sheet exposures by industry type.

Industry type 31 December 2018 (€000s)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Other services	—	19,708	—	—	—	—	19,708
Total	**—**	**19,708**	**—**	**—**	**—**	**—**	**19,708**
Of which: Loans	—	—	—	—	—	—	—

Table 15: EU CR1-C - Credit quality of exposures by geography

This table provides a comprehensive picture of the credit quality of on- and off-balance sheet exposures by country using the IFRS methodology.

Counterparty type 31 December 2018 (€000s)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Belgium	—	19,708	—	—	—	—	19,708
Other	—	—	—	—	—	—	—
Total	**—**	**19,708**	**—**	**—**	—	—	**19,708**

6 Article 453 CRR - Credit risk mitigation

The following risk metrics present BNY Mellon MEL's key risk components as at 31 December 2018.

Total exposures unsecured (€000s) €19,708

Total exposures secured (€000s) €0

Currently BNY Mellon MEL does not undertake any Credit Risk Mitigation techniques.

6.1 Netting

BNY Mellon MEL did not have any derivative positions as at 31 December 2018 and so does not currently make use of ISDA master netting agreements.

6.2 Collateral valuation and management

BNY Mellon MEL does not currently engage in collateral agreements.

6.3 Wrong-way risk

BNY Mellon MEL does not hold collateral so is not exposed to wrong-way risk.

6.4 Credit concentration risk

Credit concentration risk is the risk of loss resulting from risk concentrations as a result of insufficient diversification (including single name, industry and country concentration risk). BNY Mellon MEL does have balance sheet exposure to a BNY Mellon banking entity in Belgium giving rise to credit concentration risk.

Table 16: EU CR3 - Credit risk mitigation techniques - overview

This table shows the extent of credit risk mitigation techniques utilised.

31 December 2018 (€000s)	Exposures unsecured: carrying amount	Total exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	19,708	—	—	—	—

31 December 2018 (€000s)	Exposures unsecured: carrying amount	Total exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total debt securities	—	—	—	—	—
Total exposures	**19,708**	**—**	**—**	**—**	**—**
Of which defaulted	—	—	—	—	—

7 Article 444 CRR - External credit rating assessment institutions

The following risk metrics present BNY Mellon MEL's key risk components as at 31 December 2018.

Risk-weighted asset density 20%

Total credit risk exposure post CCF and CRM (€000s) €19,708

The standardised approach requires BNY Mellon MEL to use risk assessments prepared by External Credit Assessment Institutions ('ECAIs') to determine the risk weightings applied to rated counterparties. BNY Mellon MEL uses S&P Global Ratings, Moody's and Fitch Ratings as its chosen ECAIs consistent with Group policy.

Table 17: Mapping of ECAIs credit assessments to credit quality steps

BNY Mellon MEL uses Credit Quality Steps ('CQS') to calculate the RWAs associated with credit risk exposures. Each CQS maps to the ECAIs' credit assessments.

This table shows the mapping of BNY Mellon MEL's nominated ECAIs' credit assessments to the credit quality steps.

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

Table 18: Credit quality steps and risk-weights

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

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

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

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

Table 19: EU CR4 - Credit risk exposure and credit risk mitigation ('CRM') effects

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

	Exposures before CCF and CRM		Exposures post CCF and CRM			
	balance sheet amount		balance sheet amount			
Exposure class 31 December 2018 (€000s)	On-	Off-	On-	Off-	RWA	RWA density
Institutions	19,708	—	19,708	—	3,942	20%
Other items	—	—	—	—	—	—%
Total	**19,708**	**—**	**19,708**	**—**	**3,942**	**20%**

Table 20: EU CR5 - Credit risk exposure by risk weight post CCF and CRM

This table shows the breakdown of exposures after the application of both conversion factors and risk mitigation techniques.

Exposure class 31 December 2018 (€000s)	—%	20%	100%	150%	250%	Other	Total
Institutions	—	19,708	—	—	—	—	19,708
Other items	—	—	—	—	—	—	—
Total	**—**	**19,708**	**—**	**—**	**—**	**—**	**19,708**

8 Article 439 CRR - Exposure to counterparty credit risk

Counterparty credit risk is the risk of a counterparty to a contract defaulting before fulfillment of cash-flow obligations. The size of the potential loss could be reduced by the application of netting or collateral agreements with the counterparty.

8.1 Credit valuation adjustment

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

As at 31 December 2018 BNY Mellon MEL did not have any trading book positions, or counterparty credit risk originating from banking book derivative positions, hence it is not necessary to disclose table EU CCR1 on analysis of the counterparty credit risk exposure by approach.

8.1.1 Credit valuation adjustment capital charge

As at 31 December 2018 BNY Mellon MEL did not have any trading book positions, or counterparty credit risk originating from banking book derivative positions, hence it is not necessary to disclose table EU CCR2 on credit valuation adjustments.

8.1.2 Impact of netting and collateral held on exposure values

As at 31 December 2018 BNY Mellon MEL did not have any trading book positions, or counterparty credit risk originating from banking book derivative positions, hence it is not necessary to disclose table EU CCR5 on the impact of netting and collateral held on exposures.

9 Article 443 CRR - Asset encumbrance

The following risk metrics present BNY Mellon MEL's key risk components as at 31 December 2018.

Carrying amount - encumbered assets (€000s) €0

Carrying amount - unencumbered assets (€000s) €19,708

Table 21: AE-A - Encumbered assets

The carrying and fair value of encumbered assets by type, based on 2018 year-end values, are as follows:

31 December 2018 (€000s)	Encumbered assets				Unencumbered assets			
	Carrying amount	of which issued by other entities of the group	Fair value	of which notionally eligible EHQLA and HQLA	Carrying amount	of which EHQLA and HQLA	Fair value	of which EHQLA and HQLA
Assets of the reporting institution	**—**	**—**			**19,708**	**—**		
Loans on demand	—	—			19,708	—		
Equity instruments	—	—	—	—	—	—	—	—
Other assets	—	—			—	—		

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

Table 22: AE-B - Collateral

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

31 December 2018 (€000s)	Fair value of encumbered collateral received or own debt securities issued	of which issued by other entities of the group	Fair value of unencumbered collateral received or own debt securities issued available for encumbrance	of which EHQLA and HQLA
Collateral received by the reporting institution	—	—	—	—

31 December 2018 (€000s)	Fair value of encumbered collateral received or own debt securities issued	of which issued by other entities of the group	Fair value of unencumbered collateral received or own debt securities issued available for encumbrance	of which EHQLA and HQLA
Own covered bonds and asset-backed securities issued and not yet pledged			—	—
Total assets, collateral received and own debt securities issued	**—**	**—**		

Table 23: AE-C - Sources of encumbrance

31 December 2018 (€000s)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	—	—
Other sources of encumbrance	—	—
Other	—	—
Total sources of encumbrance	**—**	**—**

Note: ABS (Asset-Backed Securities).

10 Article 446 CRR - Operational risk

The following risk metrics present BNY Mellon MEL's key risk components as at 31 December 2018.

Operational risk exposure amount (€000s) €2,614

Operational risk capital requirements (€000s) €209

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

Operational risk may arise from errors in transaction processing, breaches of internal control, systems and compliance requirements, internal or external fraud, damage to physical assets, and/or business disruption due to systems failures or other events. Operational risk can also arise from potential legal or regulatory actions as a consequence of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations.

10.1 Operational risk management framework

BNY Mellon MEL uses the Operational Risk Management Framework ('ORMF') to capture, analyse and monitor its operational risks. The ORMF provides the processes and tools necessary to manage risk through a culture of risk awareness, a clear governance structure and well-defined policies and procedures which define the responsibilities of the first, second and third lines of defense. These tools complement each other to effectively identify, manage, mitigate (where possible), monitor and report the risks in an organised way to the appropriate governance bodies.

The ORMF defines roles and responsibilities through the global policy, using the Three Lines of Defense model as a foundation. Thus, responsibility for the management of operational risk sits first and foremost with the business and functions.

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

The second line of defense, the independent Risk Management function, is responsible for reviewing and challenging the risks identified, assessed and managed by the first line of defense. EMEA Risk Management, including the Legal Entity Risk Officer ('LERO'), is also responsible for designing and maintaining the ORMF framework and partnering with the first line of defense to enable them to embed it.

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

Therefore, the monitoring and reporting of operational risks occurs within the business, entity and EMEA-region risk oversight functions as well as decision-making forums, such as business risk committees and BNY Mellon MEL's RCMC. The tools utilised include but are not limited to:

Risk and Control Self-Assessments ('RCSA')

A comprehensive policy for Business Groups and Business Partners to identify risks associated with key business processes, identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effectiveness of those controls in place to mitigate that risk.

Operational Risk Events ('ORE')

A standard for the capture, notification and reporting of Operational Risk Events. The collection of internal loss data provides information for assessing the entity's exposure to Operational Risk. Analysis of loss events provides insight into the root cause and information on whether a control weakness is isolated or potentially more systemic. OREs are mapped to Basel II Operational Risk event categories and the impact to BNY Mellon MEL is identified. Information on Operational Risk event losses or gains exceeding USD10,000 are analysed to understand root cause(s) and to identify improvements needed in order to reduce the recurrence and/or magnitude of future events. All OREs (over USD10,000s) are reviewed for root cause and possible mitigating actions are reported to the RCMC monthly.

Key Risk Indicators ('KRI')

Key risk metrics designed to monitor activities which could cause financial loss or reputational damage to the legal entity. Periodic and consistent monitoring of KRIs ensures that deviations from predetermined standards can be identified.

Line Of Business High-level Assessments ('HLA')

The High-level Assessment is a qualitative assessment at the Business/Business Partner Group level. It is a consolidated review of detailed RCSA data that analyses the risk profile of the business, the quality of controls in place to mitigate risks and internal and external factors impacting the business.

The HLA is designed to ensure that Business/Business Partners and Risk Management identify, review and discuss the risks of the business including material operational risks on a regular basis. Being a Business Line exercise, the HLA does not provide specific information on Legal Entities. However, this is a useful source of information for the LERO who needs to form a view on the risks the Business Lines operating in BNY Mellon MEL have identified.

10.2 Capital resource requirement

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

11 Article 445 CRR - Exposure to market risk

The following risk metrics present BNY Mellon MEL's key risk components as at 31 December 2018.

Market risk exposure amount (000s) €63

Market risk capital requirements (000s) €5

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.

BNY Mellon undertakes market risk within the boundaries of its risk appetite as approved by the Board of The Bank of New York Mellon Corporation. The subsidiaries that issue risk appetite statements approved by their Boards must undertake market risk within the boundaries of those statements as well.

BNY Mellon MEL has a low appetite for Market Risk. It is not part of the Company's strategy to profit from exposure to market risk through the maintenance of a trading book. The Company has a very limited exposure to non-traded Market Risk which arises from the foreign exchange risk associated with rate fluctuations on non-EUR revenues and expenses, and from interest rate risk on deposits (for the management of excess capital) placed with The Bank of New York Mellon SA/NV, Dublin Branch or other Third Party Banks. BNY Mellon MEL seeks to limit and monitor any such exposures to a level that is necessary in order to conduct its primary business activities.

Table 24: EU MR1 - Market risk

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

BNY Mellon MEL's market risk capital requirement consists solely of foreign exchange risk.

31 December 2018 (€000s)	Risk weighted assets	Capital requirements
Foreign exchange risk	63	5
Total	**63**	**5**

12 Article 448 CRR - Interest rate risk in the banking book

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant interest rate risk as its interest-bearing financial assets are at a floating rate.

13 Article 449 CRR - Securitisation risk

Securitisation risk is the risk that the capital resources held in respect of assets that BNY Mellon MEL has securitised is insufficient to cover associated liabilities. As at 31 December 2018 and during the reporting period BNY Mellon MEL did not have any securitisation risk-weighted exposure.

14 Article 451 CRR - Leverage

The following risk metrics present BNY Mellon MEL's key risk components as at 31 December 2018.

Total leverage ratio exposure (€000s)	€19,708
Leverage ratio	99.8%

The leverage ratio is defined as the capital measure (the numerator) divided by the total exposure measure (the denominator), with this ratio expressed as a percentage:

$$\text{Leverage ratio} = \frac{\text{Capital measure}}{\text{Exposure measure}}$$

In accordance with article 499 (2) and (3) of the CRR the leverage ratio is calculated based on Tier 1 capital and is the arithmetic mean of the monthly leverage ratios over the final quarter of the year. The capital measure for the leverage ratio is the Tier 1 capital of the risk-based capital framework, taking into account transitional arrangements. Total exposure measure is the sum of the following exposures:

- On-balance sheet exposures
- Derivate exposures
- Security financing transaction ('SFT') exposures
- Off-balance sheet items

Although the BNY Mellon Corporation manages its leverage ratio in line with US regulatory limits, BNY Mellon MEL itself is not subject to a leverage ratio requirement. Nevertheless BNY Mellon MEL monitors its leverage position and reports accordingly.

Leverage ratio calculation for BNY Mellon MEL as of 31 December 2018 is presented below:

Table 25: LR1 - Leverage ratio summary

This table shows the summary reconciliation of accounting assets and leverage ratio exposures.

31 December 2018 (€000s)	
Total assets as per published financial statements	**19,708**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	—
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013 "CRR"	—

31 December 2018 (€000s)	
Adjustments for derivative financial instruments	—
Adjustments for securities financing transactions (SFTs)	—
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	—
Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013	—
Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013	—
Other adjustments	—
Total leverage ratio exposure	**19,708**

Table 26: LR2 - Leverage ratio common disclosure

Regulatory leverage ratio exposures at 31 December 2018 (€000s)	
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	19,708
Asset amounts deducted in determining Tier 1 capital	—
Total on-balance sheet exposures (excluding derivatives and SFTs)	**19,708**
Derivative exposures	
Replacement cost associated with derivatives transactions	—
Add-on amounts for PFE associated with derivatives transactions	—
Exposure determined under Original Exposure Method	—
Total derivative exposures	**—**
Securities financing transaction exposures	
SFT exposure according to Article 220 of CRR	—
SFT exposure according to Article 222 of CRR	—
Total securities financing transaction exposures	**—**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	—
Adjustments for conversion to credit equivalent amounts	—
Total off-balance sheet exposures	**—**

Regulatory leverage ratio exposures at 31 December 2018 (€000s)	
Capital and total exposures	
Tier 1 capital	19,671
Exposures of financial sector entities according to Article 429(4) 2nd of CRR	—
Leverage ratios	
Total exposures	**19,708**
End of quarter leverage ratio	99.8%
Leverage ratio (avg. of the monthly leverage ratios over the quarter)	99.8%
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	Fully phased-in
Amount of derecognised fiduciary items in accordance with Article 429(11) of CRR	—

Table 27: LR3 - Composition of on-balance sheet exposures

This table shows the composition of on-balance sheet exposures excluding derivatives, SFTs and exempted exposures at 31 December 2018.

CRR leverage ratio exposures (€000s)	
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**19,708**
Trading book exposures	—
Banking book exposures, of which:	19,708
Covered bonds	—
Exposures treated as sovereigns	—
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	—
Institutions	19,708
Secured by mortgages of immovable properties	—
Retail exposures	—
Corporate	—
Exposures in default	—
Other exposures	—

Human resources

15 Article 450 CRR - Remuneration policy

15.1 Governance

The governance of remuneration matters for BNY Mellon and its group entities, including BNY Mellon Markets Europe Limited, is overseen by four committees, each with separate responsibilities in respect of remuneration as summarised below:

Human Resources and Compensation Committee of BNY Mellon ('HRCC') is responsible for overseeing BNY Mellon'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 BNY Mellon's Board, acting on behalf of the BNY Mellon Board.

Compensation Oversight Committee of BNY Mellon ('COC') is responsible for ensuring compensation plans are based on sound risk management, it provides governance and risk oversight and advises the "HRCC on any compensation risk issues. The members of the COC are senior members of BNY Mellon management, including the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer ('CFO') and the Head of Compensation & Benefits. The Chief Executive Officer ('CEO') is responsible for the funding and design of incentive plans. All new material incentive plans, material changes to existing incentive/sales plans and funding accrual decisions are subject to the review and approval of the CEO and CFO prior to the oversight by the HRCC

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

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

15.2 Aligning pay with performance

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

Through the compensation philosophy and principles, the interests of employees and shareholders are aligned by encouraging actions that contribute to superior financial performance and long-term shareholder value, by rewarding success and by ensuring that incentive compensation arrangements do not encourage employees to take unnecessary and excessive risks that threaten the value of BNY Mellon or benefit individual employees at the expense of shareholders or other stakeholders. The compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. The aim is to ensure that both fixed and variable compensation are consistent with business and market practice, fixed compensation is sufficient to provide for a fully flexible variable compensation program, and variable compensation is in the form of annual and/or long-term incentives, and, where appropriate, granted over equity to align employee remuneration with that of shareholder growth.

15.3 Fixed remuneration

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

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

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

15.4 Ratio between fixed and variable pay

The shareholder of BNY Mellon Markets Europe Limited, The Bank of New York Mellon Corporation, approved an increase in the maximum ratio of variable to fixed pay from 100% to 200%. This increase was confirmed by the HRCC on 27 January 2014 on the grounds that the increased ratio would not affect the Company's ability to maintain a sound capital base, and allows for appropriate incentivisation and reward in accordance with our Pay for Performance philosophy.

15.5 Variable compensation funding and risk adjustment

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

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

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

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

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

Variable compensation is determined by the business performance as outlined above and an individual’s performance as measured against feedback on the following aspects:

- Corporate goals
- Individual results-based performance
- Individual behaviours (including alignment to BNY Mellon’s global competencies and values; adherence to risk, compliance and ethical obligations/competencies; and goals related to diversity and inclusion)

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.

15.6 Deferral policy and vesting criteria

Corporate Policy (General): Awards are delivered to employees entirely in cash (payable shortly after the date of award), except where the employee’s total incentive award exceeds a particular threshold (or where they are of a particular level of role. (This is set out in the table below). In this case, a portion of the annual incentive award is deferred over a period of at least four years - this portion vests in equal portions on the first, second, third and fourth anniversary of the date of award (subject to the employee remaining in employment on each of these dates).

	Total incentive award (US$000s)				
Level	<50.0	50.0 to 149.9	150.0 to 249.9	250.0 to 499.9	>= 500.0
J, K and L	—	15.0%	20.0%	25.0%	30.0%
M	—	25.0%	30.0%	35.0%	40.0%
S	—	32.5%	40.0%	45.0%	50.0%

15.7 Variable remuneration of control function staff

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

15.8 Quantitative disclosures

Details of the aggregate remuneration of Material Risk Takers for BNY Mellon MEL for the year ending 31 December 2018 cannot be disclosed on the grounds of data confidentiality.

Appendices

Appendix 1 - Other risks

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due.

BNY Mellon MEL has a low appetite for Liquidity Risk. BNY Mellon MELs liquidity is comprised of ordinary share capital and retained income. This is held in the form of cash placed on deposit with The Bank of New York Mellon SA/NV, Dublin Branch and other Third Party Banks and is repayable on demand. The Company does not maintain a trading book or have any other on or off-balance sheet obligations that require funding. BNY Mellon MEL's approach to liquidity management is to ensure that that sources of liquidity are sufficient to meet its working capital needs of the Company across all time horizons on an ongoing basis.

Strategic risk

Strategic risk is defined as the risk arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the financial industry and operating environment. Strategic and/or Business risks may also arise from the acceptance of new businesses, the introduction or modification of products, strategic finance and risk management decisions, business process changes, complex transactions, acquisitions / divestitures / joint ventures and major capital expenditures / investments.

The Company seeks to minimise this risk by having a thorough understanding of the markets in which it participates, that a process of continuous improvement approach is followed and that programs exist and direct investments are made that encourage and create innovative outcomes.

Appendix 2 - Glossary of terms

The following terms may be used in this document:

Acronym	Description
ABS	Asset-Backed Securities
ACPR	Autorite de Controle Prudentiel et de Resolution
AFR	Available Financial Resources
AIF	Alternative Investment Fund
ALCO	Asset and Liability Committee
AML	Anti-Money Laundering
AS	Asset Servicing
AT1	Additional Tier 1
AUC	Assets Under Custody
BAC	Business Acceptance Committee
BAU	Business as usual
BaFin	Federal Financial Supervisory Authority / Bundesanstalt fur Finanzdienstleistungsaufsicht
BDAS	Broker-Dealer and Advisory Services
BDF	Banque De France
BEMCO	Belgium Management Council
BI	Banca D'Italia
BNY Mellon	The Bank of New York Mellon Corporation
BNY Mellon SA/NV	The Bank of New York Mellon SA/NV
BNY Mellon TDUKL	BNY Mellon Trust & Depositary (UK) Limited
BNYIFC	BNY International Financing Corporation
BNY Mellon KG	BNY Mellon Service Kapitalanlage-Gesellschaft mbH
BRC	Business Risk Committee
CASS	Client Asset Sourcebook Rules
CBI	Central Bank of Ireland
CCF	Credit Conversion Factor

Acronym	Description
CEO	Chief Executive Officer
CEF	Critical Economic Function
CET1	Common Equity Tier 1
CGB	CASS Governance Body
CIS	Collective Investment Scheme
COC	Compensation Oversight Committee
COOC	CASS Operational Oversight Committee
COREP	Common Reporting
CQS	Credit Quality Steps
CRD	Capital Requirements Directive
CRM	Credit Risk Mitigation
CROC	Credit Risk Oversight Committee
CRR	Capital Requirements Regulation
CSD	Client Service Delivery
CSRSFI	Committee for Systemic Risks and System-relevant Financial Institutions
CSSF	Commission de Surveillance du Secteur Financier
CSTC	Capital and Stress Testing Committee
CT	Corporate Trust
CTS	Client Technology Solutions
DB	Deutsche Bank
DNB	De Nederlandsche Bank
DVP	Delivery versus Payment
EAD	Exposure at default
EC	European Commission
ECL	Expected Credit Losses
ECAP	Economic Capital
ECB	European Central Bank
ECM	Embedded Control Management
EEC	EMEA Executive Committee

Acronym	Description
EHQLA	Extremely High Quality Liquid Assets
EMEA	Europe, Middle East and Africa
ERGC	EMEA Remuneration Governance Committee
ESRMC	EMEA Senior Risk Management Committee
EU	European Union
EUR	Euro
EWI	Early Warning Indicators
ExCo	Executive Committee
FCA	Financial Conduct Authority
FMUs	Financial market utilities
FRS	Financial Reporting Standard
FSMA	Financial Services and Markets Authority
FX	Foreign Exchange
G-SIFI	Global Systemically Important Financial Institution
GCA	Global Custody Agreement
GSP	Global Securities Processing
HLA	High-level Assessment
HQLA	High Quality Liquid Assets
HRCC	Human Resources Compensation Committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICA	Internal Capital Assessment
ICAAP	Internal Capital Adequacy Assessment Process
ICRC	Incentive Compensation Review Committee
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILG	Individual Liquidity Guidance

Acronym	Description
IRRBB	Interest Rate Risk on Banking Book
IMMS	International Money Management System
ISDA	International Swaps and Derivatives Association
ISM	Investment Services and Markets
IT	Information Technology
KRI	Key Risk Indicator
KYC	Know your customer
LCR	Liquidity Coverage Ratio
LERO	Legal Entity Risk Officer
LOB	Line of Business
LOD	Line of Defense
MiFID II	Markets in Financial Instruments Directive II
MNA	Master Netting Agreements
MRMG	Model Risk Management Group
MRT	Material Risk Taker
MTF	Multilateral Trading Facility
NAV	Net Asset Value
NBB	National Bank of Belgium
NoCo	Nomination Committee
NSFR	Net Stable Funding Ratio
O-SII	Other systemically important institution
OCI	Other Comprehensive Income
OEICs	Open-ended Investment Companies
ORMF	Operational Risk Management Framework
ORSA	Operational Risk Scenario Analysis
P/L	Profit and Loss
PFE	Potential Future Exposure
PRA	Prudential Regulatory Authority
RCoB	Risk Committee of the Board
RCSA	Risk and Control Self-Assessment
RM	Risk Manager

Acronym	Description
RMC	Risk Management Committee/Council
RMP	Risk Management Platform
RRP	Recovery and Resolution Planning
RW	Risk-weight
RWA	Risk Weighted Assets
SA	Standardised Approach
SFT	Security Financing Transaction
SLD	Service Level Description
SREP	Supervisory review and evaluation process

Acronym	Description
SRO	Senior Risk Officer
T&D	Trust & Depositary
T1 / T2	Tier 1 / Tier 2
TCR	Total Capital Requirements
TIRC	Technology and Information Risk Council
TLAC	Total Loss-Absorbing Capacity
UCITS	Undertakings for Collective Investment in Transferable Securities
VaR	Value-at-Risk

The following terms may be used in this document:

Ad valorem: Method for charging fees according to the value of goods and services, instead of by a fixed rate, or by weight or quantity. Latin for, [according] to the value

Basel III: The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision ('BCBS') in 2010

BIPRU: Prudential sourcebook for banks, building societies and investment firms

Brexit: The United Kingdom's referendum decision to leave the EU

CRD IV: On 27 June 2013, the European Commission published, through the Official Journal of the European Union, its legislation for a Capital Requirements Directive ('CRD') and Capital Requirements Regulation ('CRR'), which together form the CRD IV package. Amendments published on 30 November 2013 were made to the Regulation. The package implements the Basel III reforms in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. CRD IV rules apply from 1 January 2014 onwards, with certain requirements set to be phased in

Capital Requirements Directive ('CRD'): A capital adequacy legislative package issued by the European Commission and adopted by EU member states

Capital Requirements Regulation ('CRR'): Regulation that is directly applicable to anyone in the European Union and is not transposed into national law

Common Equity Tier 1 capital: The highest quality form of regulatory capital under Basel III comprising common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments

Core Tier 1 capital: Called-up share capital and eligible reserves plus equity non-controlling interests, less intangible assets and other regulatory deductions

Credit risk mitigation ('CRM'): A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection

Derivatives: A derivative is a financial instrument that derives its value from one or more underlying assets, for example bonds or currencies

Exposure: A claim, contingent claim or position which carries a risk of financial loss

Exposure at default ('EAD'): The amount expected to be outstanding, after any credit risk mitigation, if and when a counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures over a one-year time horizon

Financial Conduct Authority ('FCA'): The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms, prudential standards in the UK. It has a strategic objective to ensure that the relevant markets function well

High-level Assessment ('HLA'): An assessment of the quality of controls in place to mitigate risk and residual risk. Residual risk is assessed as high, moderate to high, moderate, moderate to low and low with direction anticipated

Institutions: Under the Standardised Approach, institutions are classified as credit institutions or investment firms

Internal Capital Adequacy Assessment Process ('ICAAP'): The group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints

ISDA Master Agreement: A document that outlines the terms applied to a derivatives transaction between two parties. Once the two parties have agreed to the standard terms, they do not have to renegotiate each time a new transaction is entered into

Key Risk Indicator ('KRI'): Key Risk Indicators are used by business lines to evaluate control effectiveness and residual risk within a business process

Master Netting Agreement: An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract

Pillar 3: The part of Basel III that sets out information banks must disclose about their risks, the amount of capital required to absorb them and their approach to risk management. The aim is to encourage market discipline and improve the information made available to the market

Prudential Regulation Authority ('PRA'): The statutory body responsible for the prudential supervision of banks, building societies, credit unions, insurers and major investment firms in the UK. The PRA is a subsidiary of the Bank of England

Residual maturity: The period outstanding from the reporting date to the maturity or end date of an exposure

Risk appetite: A definition of the types and quantum of risks to which the firm wishes to be exposed

Risk and Control Self-Assessment ('RCSA'): Risk and Control Self-Assessment is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls

Risk Governance Framework: The risk governance framework has been developed in conjunction with BNY Mellon requirements. Key elements of the framework are:

- Formal governance committees, with mandates and defined attendees
- Clearly defined escalation processes, both informally (management lines) and formally (governance committees, board, etc.)
- A clear business as usual process for identification, management and control of risks
- Regular reporting of risk issues

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

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

Standardised Approach ('SA'): Method used to calculate credit risk capital requirements using the Basel III, CRD IV, CRR model supplied by the BCBS. The SA model uses external credit assessment institution ratings and supervisory risk weights supplied by external credit assessment agencies

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

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

Appendix 3 - CRD IV reference

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

435 (1) (e)	Approved declaration on the adequacy of risk management arrangements	Section 4 Article 435 CRR - Risk management objectives and policies	22
435 (1) (f)	Approved risk statement describing the overall risk profile associated with business strategy	Section 4 Article 435 CRR - Risk management objectives and policies	22
435 (2) (a)	Number of directorships held by directors	Section 4.1 Board of Directors	23
435 (2) (b)	Recruitment policy of Board members, their experience and expertise	Section 4.1 Board of Directors	23
435 (2) (c)	Policy on diversity of Board membership and results against targets	Section 4.1 Board of Directors	23
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year	Section 4.2 Risk governance	23
435 (2) (e)	Description of information flow on risk to Board	Section 4.2 Risk governance	23
Scope of application			
436 (a)	The name of the institution to which the requirements of this Regulation apply	Section 1 Article 431 CRR - Scope of disclosure requirements	6
436 (b) 436 (b) (i) 436 (b) (ii) 436 (b) (iii) 436 (b) (iv)	Outline the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: fully consolidated; proportionally consolidated; deducted from own funds; neither consolidated nor deducted	Section 1 Article 431 CRR - Scope of disclosure requirements	6
436 (c)	Current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	N/A	N/A
436 (d)	Aggregate amount by which the actual Own Funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	N/A - Entities outside the scope of consolidation are appropriately capitalised	N/A
436 (e)	If applicable, the circumstance of making use of the provisions laid down in Articles 7 & 9	N/A	N/A
Own funds			
437 (1)	Requirements regarding capital resources table	Section 2 Article 437 CRR - Own Funds	12
437 (1) (a)	Full reconciliation of Common Equity Tier 1 (CET1) items	Table 2: CC2 Reconciliation of regulatory capital	13
437 (1) (b)	Description of the main features of the CET1 and Additional Tier 1 and Tier 2 instruments	Table 7: CCA Main features of regulatory capital instruments	18
437 (1) (c)	Full terms and conditions of all CET1, Additional Tier 1 and Tier 2 instruments	N/A	N/A
437 (1) (d) (i) 437 (1) (d) (ii) 437 (1) (d) (iii)	Each prudent filter applied Each deduction made Items not deducted	Table 3: EU LI1 Differences in accounting and regulatory scopes...	15
437 (1) (e)	Description of all restrictions applied to the calculation of Own Funds	N/A - no restrictions apply	N/A
437 (1) (f)	Explanation of the basis of calculating capital ratios using elements of Own Funds	N/A - Capital ratios calculated on basis stipulated in the Regulations	N/A
437 (2)	EBA to publish implementation standards for points above	BNY Mellon follows the implementation standards	N/A
Capital requirements			

438 (a)	Summary of institution's approach to assessing adequacy of capital levels	Section 3 Article 438 CRR - Capital requirements	20
438 (b)	Result of ICAAP on demand from authorities	N/A	N/A
438 (c)	Capital requirement amounts for credit risk for each Standardised Approach exposure class	Table 8: EU OV1 Overview of RWAs	21
438 (d) 438 (d) (i) 438 (d) (ii) 438 (d) (iii) 438 (d) (iv)	Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class	N/A - internal ratings based approach is not used	N/A
438 (e)	Own funds requirements for market risk or settlement risk, or large exposures where they exceed limits	N/A	N/A
438 (f)	Own funds amounts for operational risk, separately for the basic indicator approach, the standardised approach, and the advanced measurement approaches as applicable	Table 8: EU OV1 Overview of RWAs and Section 10 Article 446 CRR - Operational risk	21 & 40
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk-weight approach	N/A	N/A
Exposure to counterparty credit risk (CCR)			
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures	Section 8 Article 439 CRR - Exposure to counterparty credit risk	37
439 (b)	Discussion of process to secure collateral and establishing reserves	Section 8 Article 439 CRR - Exposure to counterparty credit risk	37
439 (c)	Discussion of management of wrong-way exposures	Section 8 Article 439 CRR - Exposure to counterparty credit risk	37
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade	N/A - a credit ratings downgrade is managed at BNY Mellon Corp level	N/A
439 (e)	Derivation of net derivative credit exposure	Section 8 Article 439 CRR - Exposure to counterparty credit risk	37
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Section 8 Article 439 CRR - Exposure to counterparty credit risk	37
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	N/A - BNY Mellon does not have credit derivative transactions	N/A
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type	N/A - BNY Mellon does not have credit derivative transactions	N/A
439 (i)	Estimate of alpha, if applicable	N/A	N/A
Capital buffers			
440 (1) (a)	Geographical distribution of relevant credit exposures	N/A	N/A
440 (1) (b)	Amount of the institution specific countercyclical capital buffer	N/A	N/A
440 (2)	EBA will issue technical implementation standards related to 440 (1)	N/A	N/A
Indicators of global systemic importance			
441 (1)	Disclosure of the indicators of global systemic importance	N/A	N/A
441 (2)	EBA will issue technical implementation standards related to 441 (1)	N/A	N/A
Credit risk adjustments			

442 (a)	Disclosure of bank's definitions of past due and impaired	Section 5.6 Analysis of past due and impaired exposures	31
442 (b)	Approaches for calculating credit risk adjustments	Section 5.6 Analysis of past due and impaired exposures	31
442 (c)	Disclosure of pre-CRM EAD by exposure class	Table 9: EU CRB-B Total and average net amount of exposures	30
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class	Table 10: EU CRB-C Geographical breakdown of exposures	30
442 (e)	Disclosures of pre-CRM EAD by industry and exposure class	Table 11: EU CRB-D Concentration of exposures by counterparty types	31
442 (f)	Disclosures of pre-CRM EAD by residual maturity and exposure class	Table 12: EU CRB-E Maturity of exposures	31
442 (g) 442 (g) (i) 442 (g) (ii) 442 (g) (iii)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type	Table 13: EU CR1-A Credit quality of exposures by exposure class and instrument	31
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography	Table 15: EU CR1-C Credit quality of exposures by geography	32
442 (i) 442 (i) (i) 442 (i) (ii) 442 (i) (iii) 442 (i) (iv) 442 (i) (v)	Reconciliation of changes in specific and general credit risk adjustments	Section 5.6 Analysis of past due and impaired exposures	31
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately	Section 5.6 Analysis of past due and impaired exposures	31
Unencumbered assets			
443	Disclosures on unencumbered assets	Section 9 Article 443 CRR Asset encumbrance	38
Use of ECAIs			
444 (a)	Names of the ECAIs used in the calculation of Standardised Approach RWAs, and reasons for any changes	Section 7 Article 444 CRR External credit rating assessment institutions	35
444 (b)	Exposure classes associated with each ECAI	Table 17: Mapping of ECAIs credit assessments to credit quality steps	35
444 (c)	Explanation of the process for translating external ratings into credit quality steps	Table 18: Credit quality steps and risk-weights	35
444 (d)	Mapping of external rating to credit quality steps	Section 7 Article 444 CRR External credit rating assessment institutions	35
444 (e)	Exposure value pre and post-credit risk mitigation, by credit quality step	Tables 17-20: External credit rating assessment institutions (ECAIs)	35
Exposure to market risk			
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	Section 11 Article 445 CRR Exposure to market risk	42
Operational risk			
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered	Section 10 Article 446 CRR Operational risk	40
Exposure in equities not included in the trading book			

447 (a)	Differentiation of exposures based on objectives	N/A: no non-trading book exposure in equities	N/A
447 (b)	Recorded and fair value, and actual prices of exchange traded equity where it differs from fair value	N/A: no non-trading book exposure in equities	N/A
447 (c)	Types, nature and amounts of the relevant classes of equity exposures	N/A: no non-trading book exposure in equities	N/A
447 (d)	Realised cumulative gains and losses on sales over the period	N/A: no non-trading book exposure in equities	N/A
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital	N/A: no non-trading book exposure in equities	N/A
Exposure to interest rate risk on positions not included in the trading book			
448 (a)	Nature of risk and key assumptions in measurement models	Section 10: The Investments Company has no significant Balance Sheet Interest Rate Risk because no maturity mismatch exists between client cash deposits and Bank's cash holdings. In addition, interest rates applicable to clients' cash deposits are market driven	42
448 (b)	Variation in earnings or economic value, or other measures used by the bank from upward and downward shocks to interest rates, by currency	N/A	N/A
Exposure to securitisation positions			
449	Exposure to securitisations positions	N/A: no non-trading book exposure in equities	N/A
Remuneration disclosures			
450	Remuneration disclosure regarding remuneration policy and practices	Section 15 Article 450 CRR Remuneration policy	47
450 (1) (a)	Information concerning the decision-making process used for determining the remuneration policy	Section 15.1 Governance	47
450 (1) (b)	Information on link between pay and performance	Section 15.2 Aligning pay with performance	48
450 (1) (c)	Important design characteristics of the remuneration system	Section 15 Article 450 CRR Remuneration policy	47
450 (1) (d)	Ratios between fixed and variable remuneration	Section 15.4 Ratio between fixed and variable pay	49
450 (1) (e)	Information on the performance criteria on which the entitlement to shares, options and variable components of remuneration is based	Section 15.6 Deferral policy and vesting criteria	49
450 (1) (f)	Main parameters and rationale for any variable component scheme and any other non-cash benefits	Section 15.7 Variable remuneration of control function staff	50
450 (1) (g)	Aggregate quantitative information on remuneration by business area	N/A	N/A

450 (1) (h) 450 (1) (h) (i) 450 (1) (h) (ii) 450 (1) (h) (iii) 450 (1) (h) (iv) 450 (1) (h) (v) 450 (1) (h) (vi)	Aggregate quantitative information on remuneration, broken down by senior staff management and members of staff whose actions have a material impact on the risk profile	N/A	N/A
450 (1) (i)	Number of individuals being remunerated £1 million or more per financial year	N/A	N/A
450 (1) (j)	Total remuneration for each member of the management body upon demand from the Member State or competent authority	N/A	N/A
450 (2)	For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information above shall be made available to the public at the level of members of the management body of the institution	N/A	N/A
Leverage			
451 (1) (a)	Leverage ratio	Section 14 Article 451 CRR Leverage	44
451 (1) (b)	Breakdown of total exposure measure	Table 26: LR2 Leverage ratio common disclosure	45
451 (1) (c)	Derecognised fiduciary items	N/A	N/A
451 (1) (d)	Description of the process used to manage the risk of excessive leverage	N/A	N/A
451 (1) (e)	Description of the factors that had an impact on the leverage ratio	Section 14 Article 451 CRR Leverage	44
451 (2)	EBA to publish implementation standards for points above	BNY Mellon follows the implementation standards	N/A
Use of the IRB approach to credit risk			
452	Risk-weighted exposure under the IRB approach	N/A	N/A
Use of credit risk mitigation techniques			
453 (a)	Use of on- and off-balance sheet netting	Section 6.1 Netting	33
453 (b)	How collateral valuation is managed	Section 6.2 Collateral valuation and management	33
453 (c)	Description of types of collateral used	N/A	N/A
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	N/A - BNY Mellon's EMEA entities do not enter into credit derivative transactions	N/A
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures	Section 6.4 Credit concentration risk	33
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	N/A	N/A
453 (g)	Exposures covered by guarantees or credit derivatives	Table 16: EU CR3 Credit risk mitigation techniques - overview	33
Use of the Advanced Measurement Approaches to operational risk			
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk	N/A - Pillar 1 : standardized approach, Pillar 2 : self-assessment approach	N/A
Use of internal market risk models			

455	Institutions calculating their capital requirements using internal market risk models	N/A	N/A
Commission Implementing Regulation (EU) No 1423/2013			
Article 1	Specifies uniform templates for the purposes of disclosure	N/A	N/A
Article 2	Full reconciliation of own funds items to audited financial statements	Table 2: CC2 Reconciliation of regulatory capital	13
Article 3	Description of the main features of CET1, AT1 and Tier 2 instruments issued (Annex II and III)	Table 7: CCA Main features of regulatory capital instruments	18
Article 4	Disclosure of nature and amounts of specific items on own funds (Annex IV and V)	Table 6: TLAC1 Transitional own funds	17
Article 5	Disclosure of nature and amounts of specific items on own funds during transitional period (Annex VI and VII)	N/A	N/A
Article 6	Entry into force from 31 March 2014	N/A	N/A

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