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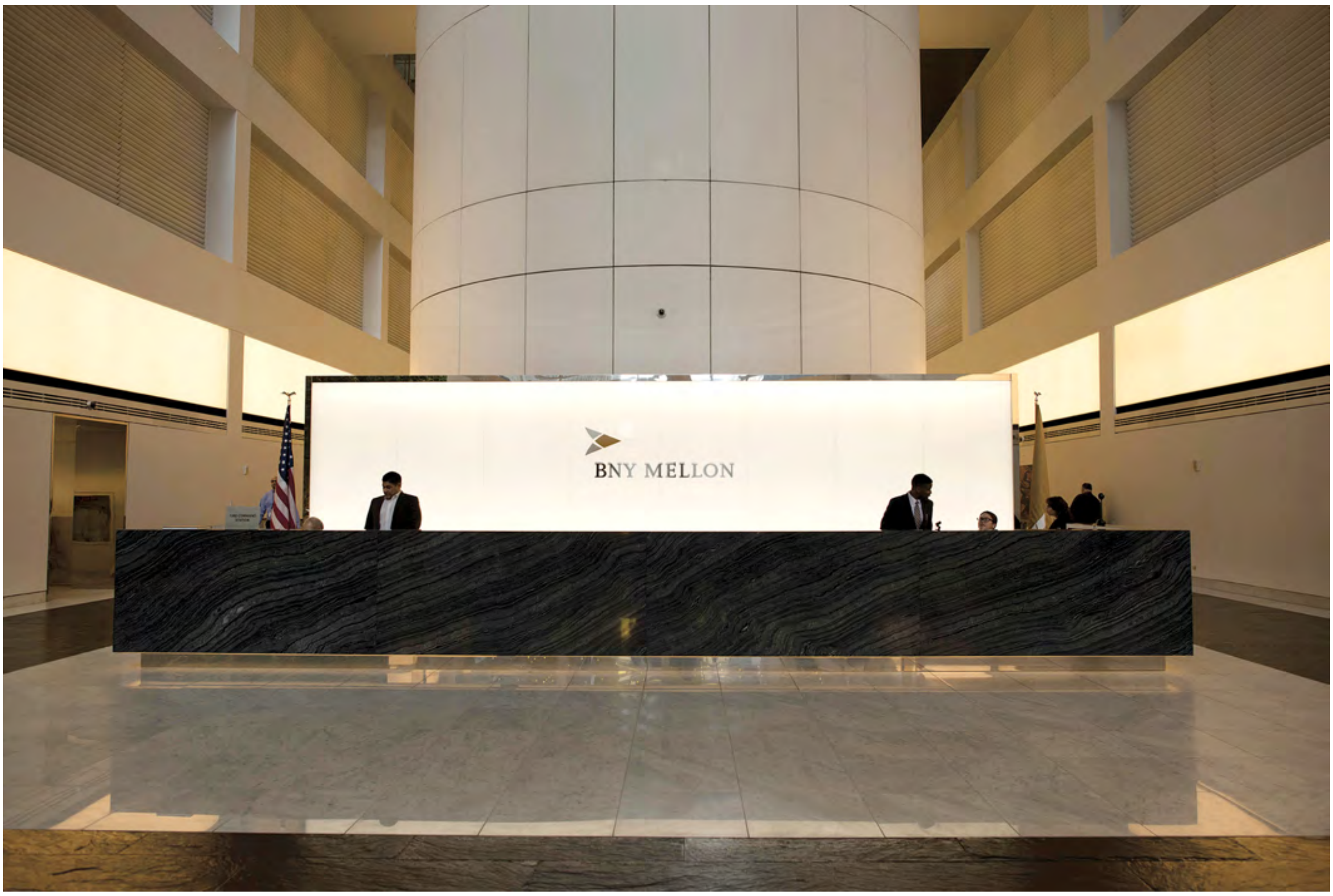
Pershing Holdings (UK) Limited

Pillar 3 Disclosure

December 31, 2017

Contents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Index of Tables

Any discrepancies between the totals and sums of components within the tables and graphs within this report are due to rounding.

Appendices

1 Scope of application

1.1 Disclosure policy

This document comprises the Pershing Holdings (UK) Limited and its subsidiary undertakings (together the "PHUK Group" or "Pershing") Pillar 3 disclosures on capital and risk management at 31 December 2017. 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.

When assessing the appropriateness of these disclosures in the application of Article 431(3) in the CRR, PHUK Group has ensured adherence to the following principles of:

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

Pillar 3 disclosures are required for a consolidated group and for those parts of the group covered by CRD IV. As such, these disclosures have been prepared for the PHUK Group and information in this report has been prepared solely to meet the Pillar 3 disclosure requirements of the entities noted, and to provide certain specified information about capital and other risks and details about the management of those risks, and for no other purpose. These disclosures do not constitute any form of financial statement of the business nor do they constitute any form of contemporary or forward looking record or opinion of the business.

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

The following risk metrics present PHUK Group's risk components as at 31 December 2017. Please see page 11 for a comprehensive list capital ratios.

Common Equity Tier 1 ratio	70.8%	2016: 84.9%
Common Equity Tier 1 capital	£184m	2016: £180m
Total risk-weighted assets	£260m	2016: £212m
Basel III leverage ratio (This ratio is for information only. PHUK Group is not subject to a binding leverage requirement)	43.9%	2016: 33.5%

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 and operational risk

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, its capital resources and an analysis of its credit risk exposures

Wherever possible and relevant, the Pershing Holdings (UK) Limited Board ("the Board") will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content.

1.3 Purpose of pillar 3

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

- Credit risk
- Counterparty credit risk
- Market risk
- Credit valuation risk
- Securitisation risk
- Operational risk

These Pillar 3 disclosures only focus on those risk and exposure types relevant to PHUK Group.

PHUK Group 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 risk exposures. The disclosures also include, where appropriate, comparative figures for the prior year and an analysis of the more significant movements to provide greater insight into its approach to risk management.

For completeness, other risks that PHUK Group is exposured to, but are not covered above, are also discussed in Appendix 1.

1.4 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 criteria for materiality used in these disclosures is that the PHUK Group will regard as material any information where its 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 company's competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investment therein less valuable. In such circumstance, the Board will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure. In addition it will publish more general information about the subject matter of the disclosure requirement except where these are to be classified as confidential.

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

Disclosures are published on The Bank of New York Mellon Corporation group website:

BNY Mellon Investor Relations - Pillar 3

1.6 Board approval

These disclosures were approved for publication by the Board on 27 June 2018. The Board has verified that the disclosures are consistent with formal policies adopted regarding production and validation and are satisfied with the adequacy and effectiveness of the risk management arrangements.

1.7 Key 2017 and subsequent events

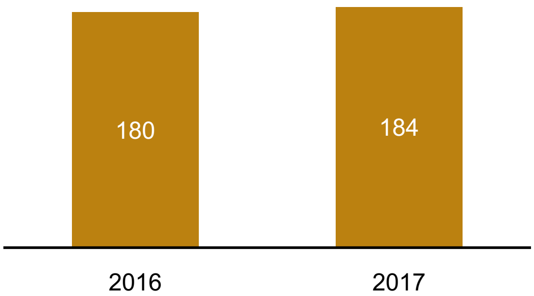
The Board periodically reviews the strategy of PHUK Group and the associated products and services it provides to clients. This generally takes place during the first quarter of each year following the yearly refresh of the legal entity strategy.

In relation to the assessment and monitoring of economic, political and regulatory risks, PHUK Group is continuing to evaluate the impact of the outcome of the Brexit referendum in relation to the UK's membership of the EU on business strategy and business risks in the short, medium and long term.

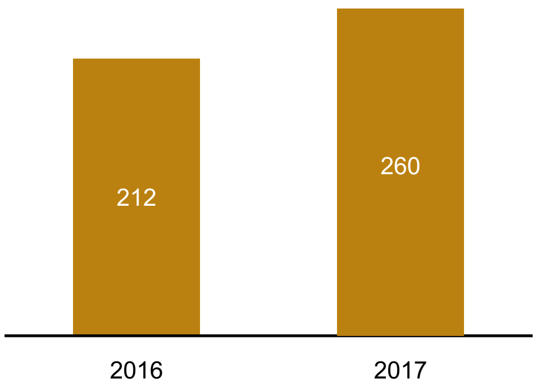
1.8 Key metrics

The following risk metrics reflect PHUK Group's risk profile:

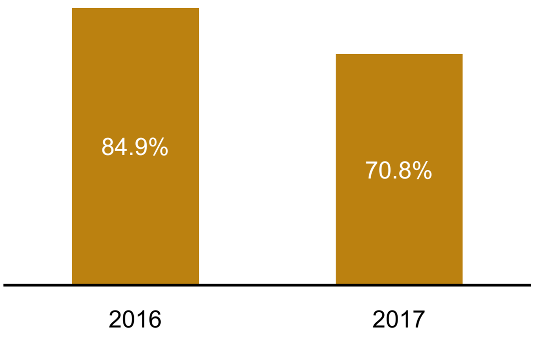
Regulatory capital (£m)



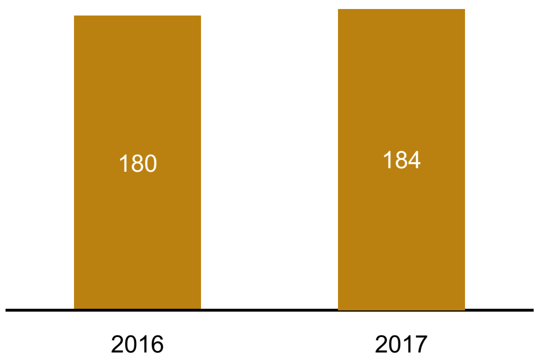
Risk weighted assets (£m)



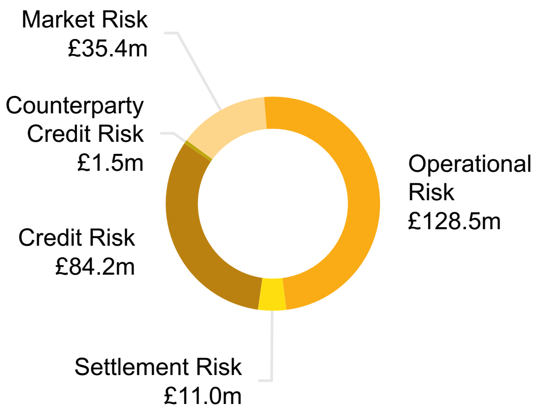
CET1 ratio trend



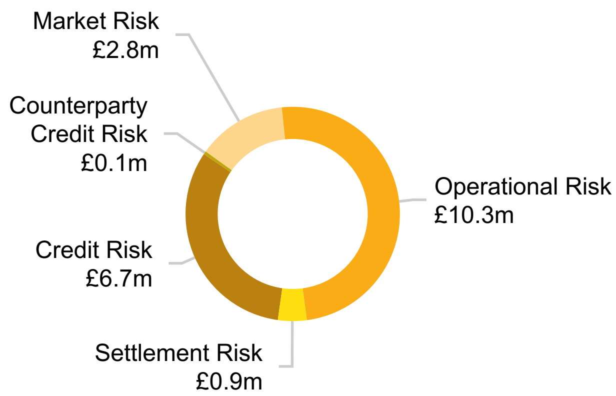
Total capital (£m)



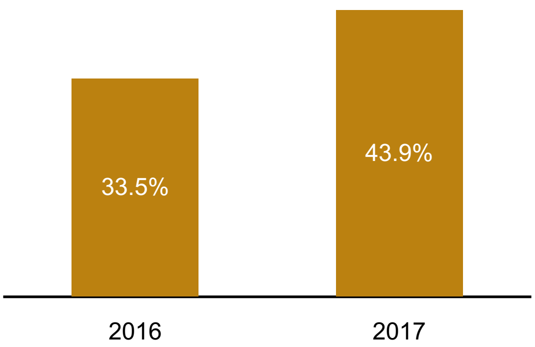
Risk exposure amount by risk type (£260m) 2017



Capital requirements by risk type (£21m) 2017



Leverage ratio trend



Total leverage ratio exposure (£m)

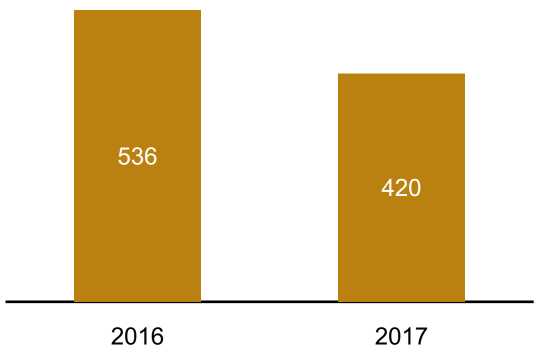


Table 1: Capital ratios

Own Funds	2017	2016
Available capital (£m)		
Common Equity Tier 1 (CET1) capital	184.4	179.9
Tier 1 capital	184.4	179.9
Total capital	**184.4**	**179.9**
Risk-weighted assets (£m)		
Total risk-weighted assets (RWA)	260.5	211.9
Risk-based capital ratios as a percentage of RWA		
CET1 ratio	70.8%	84.9%
Tier 1 ratio	70.8%	84.9%
Total capital ratio	**70.8%**	**84.9%**
Capital conservation buffer requirement	1.20%	0.73%
Total of CET1 specific buffer requirements	**1.20%**	**0.73%**
Basel III leverage ratio		
Total Basel III leverage ratio exposure measure (£m)	420.3	536.4
Basel III leverage ratio	**43.9%**	**33.5%**

1.9 Company description

Pershing Holdings (UK) Limited is a parent financial holding company incorporated in the UK and is a operationally independent subsidiary of Pershing Group LLC which is, in turn a subsidiary of the Bank of New York Mellon Corporation ("BNY Mellon").

Pershing Group LLC is engaged in broadly the same business activity as PHUK Group. As at 31 March 2018, Pershing Group LLC had $1.8 trillion in global client assets.

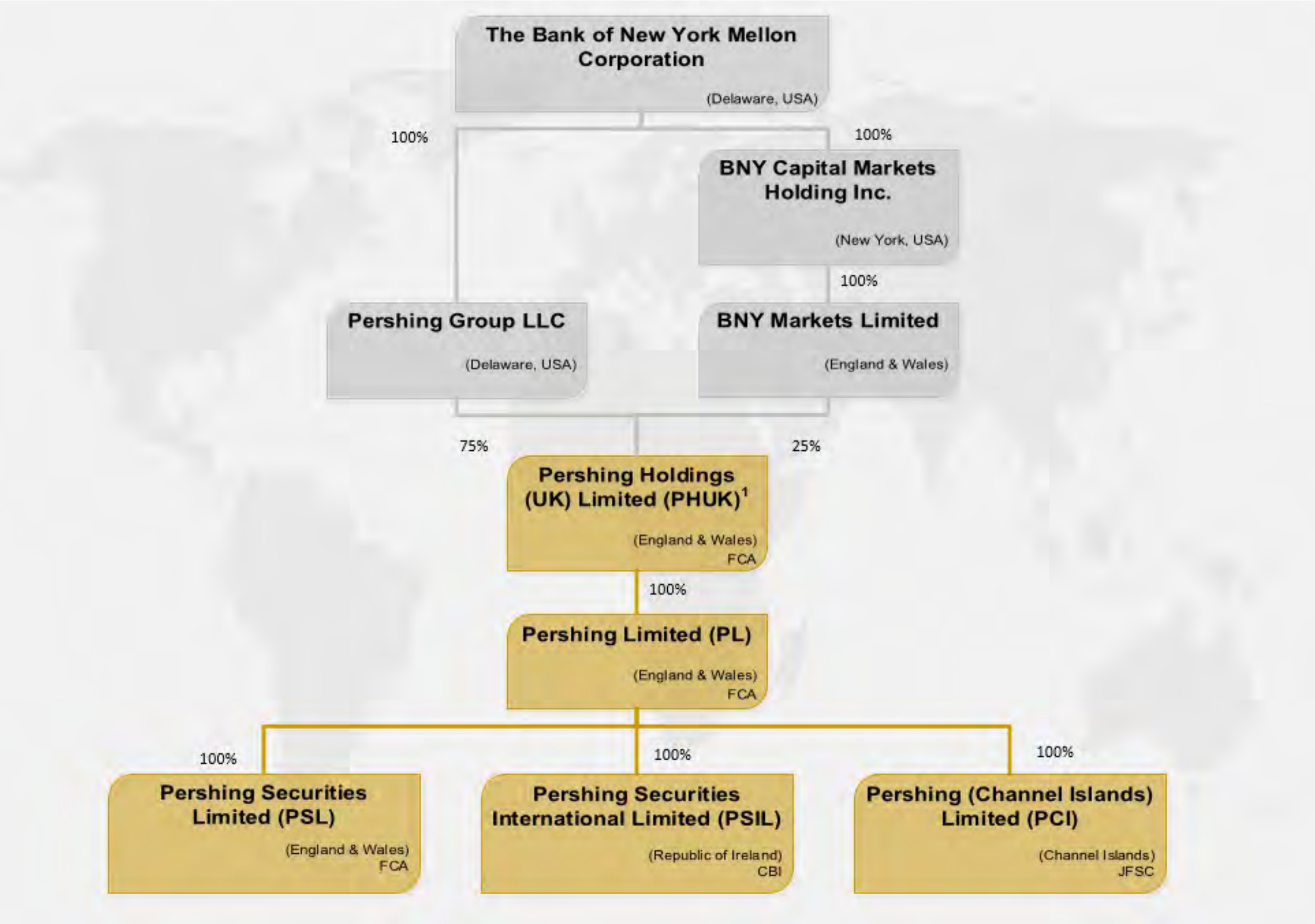
BNY Mellon Group (BNY Mellon) is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As at 31 December 2017, BNY Mellon had $33.3 trillion in assets under custody and/or administration, and $1.9 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.

Pershing Limited ("PL") and Pershing Securities Limited ("PSL") are significant subsidiaries of Pershing Holdings (UK) Limited. They are both full scope IFPRU investment firms and are both authorised and regulated by the Financial Conduct Authority (FCA). PL and PSL capital resources and requirements are disclosed in Appendix 3.

Pershing (Channel Islands) Limited ("PCI") is regulated by the Jersey Financial Securities Commission. Pershing Securities International Limited ("PSIL") is regulated by the Central Bank of Ireland whose Pillar 3 disclosures are published separately.

The corporate structure of PHUK Group is illustrated in Figure 1.

Figure 1: Legal entity structure at 31 December 2017



1.10 Core business lines

The principal activities of PHUK Group include the provision of an integrated range of execution, clearing and settlement, investment administration, safe custody and related services for a range of broker-dealers, wealth managers, intermediary firms and financial institutions. These are further described below:

Clearing and Settlement Services

PHUK Group provides clearing and settlement services of on-exchange and OTC global equity, EFT, fund, bond and fixed income trades across more than 40 markets. Key features of services include:

- Full front-to-back processing
- A wide range of instruments traded (equities, fixed income, ETFs, etc.)
- General clearing membership in all the main central counterparties: LCH Limited, LCH SA, Eurex and EuroCCP
- Straight-through processing efficiencies
- Audit trail on all transaction actions and resolutions

PHUK Group entities are both Non Clearing Members and General Clearing Members. PL, which is a

General Clearing Member of LCH, carries out PHUK Group LCH Equity Clear clearing services business. PHUK Group also provides interoperable GCM services to pan European MTFs via its membership of EuroCCP, as well as primary European Exchanges.

Custody Services

PHUK Group offers non-disclosed and fully disclosed custody services both inside and outside the UK. With a non-disclosed solution, PHUK Group is not disclosed to the investor and the client uses their own name and balance sheet to support transactions, with associated capital and liquidity requirements. With a fully disclosed solution, PHUK Group is disclosed to the investor as the custodian of their assets and trade and settlement risk, related regulatory obligations, capital and asset liquidity requirements and custody, transfer from the client to PHUK Group. PHUK Group also takes responsibility for custody operations (such as dividend entitlement and corporate event notification) and regulatory reporting. In addition to a custody service in the UK, PHUK Group also offers offshore custody through PCI. Custody in Europe, outside the UK, is provided through PSIL in Dublin.

Trading Services

Pershing Trading Services is an agency only model available in the following asset classes: funds, global equities, ETFs, bonds, fixed income and currencies. The service includes electronic equities trading, advanced algorithmic technology and best of breed smart order routing technologies.

Investment and Platform Solutions

PHUK Group provides wealth managers and advisers with a wide range of services, tools and tax-efficient products including

- Investor Reporting - provides valuation reports which are white-labelled to be branded with the client's own corporate identity, reinforcing their brand recognition
- Investor Portal provides investors with online access to their portfolios and investments
- Lending - provides a collateralised equity-based lending service. Investors borrow money against the assets held in their investment portfolio. PHUK Group accepts as collateral a wide range of securities, including FTSE 350 equities and daily-priced UK registered collective investment funds. Loans can be used for any purpose, except for buying property
- Portfolio Management Solution (PMS) - provides a powerful tool for wealth managers and advisers to which makes managing investors' portfolios faster, simpler and much more efficient Retirement Solutions include Pershing's Self-Invested Personal Pension (SIPP) alongside ISA's and other tax-efficient products for retirement planning

2 Own funds

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

Common Equity Tier 1 capital £184m

2016: £180m

Total own funds £184m

2016: £180m

Total risk weighted assets £260m

2016: £212m

Own funds comprise tier 1 and tier 2 capital less deductions. This section provides an overview of the composition of PHUK Group's regulatory Own Funds. Please note;

1. PHUK Group holds no Additional Tier 1 capital or Tier 2 capital. Accordingly the analysis of those line items has not been shown
2. Similar tables for the significant subsidiaries PSL and PL are shown in Appendix 3

Table 2: Reconciliation of regulatory own funds

This table shows a reconciliation of PHUK Group's Own Funds prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: Reduced Disclosure Framework (FRS 101) and the regulatory own funds prepared under prudential rules. The regulatory balance sheet forms the basis for the calculation of regulatory capital requirements.

At 31 December 2017 (£m)	Consolidated balance sheet	Regulatory adjustments	Regulatory balance sheet
Assets			
Cash in hand and on demand balances at central banks	203	—	203
Loans and advances to customers	492	(1)	492
Investments	133	—	133
Fixed assets	85	—	85
Prepayments and accrued income	14	6	21
Other assets	14	(6)	9
Total assets	**941**	**—**	**941**
Liabilities			
Bank loans and overdrafts	240	—	240
Deposits from banks and building societies	373	22	396
Other liabilities	55	(52)	3

At 31 December 2017 (£m)	Consolidated balance sheet	Regulatory adjustments	Regulatory balance sheet
Accruals and deferred income	7	34	41
Amounts due to group undertakings	4	(4)	—
Provision for liabilities and commitments	1	—	1
Total liabilities	**680**	**—**	**680**
Shareholders' equity			
Share capital	291	—	291
Profit and loss account	(43)	—	(43)
Other comprehensive income	10	—	10
Other reserves	4	—	4
Equity	**261**	**—**	**261**
Total equity and liabilities	**941**	**—**	**941**

Table 3: Composition of regulatory own funds

This table shows the composition of PHUK Group's regulatory Own Funds, including all regulatory adjustments and a comparison to the prior year.

Own Funds	31-Dec-17	31-Dec-16
Common Equity Tier 1 (CET1)		
Capital instruments	291.1	291.1
Retained earnings	(38.8)	(44.2)
Other comprehensive income	5.8	6.0
Reserves and others	—	—
CET1 adjustments	(73.8)	(73.0)
Total CET1	**184.4**	**179.9**
Additional Tier 1 (AT1) capital		
Total AT1	**—**	**—**
Total Tier 1 capital	**184.4**	**179.9**
Tier 2 (T2) capital		
Total T2 capital	**—**	**—**
Total Own Funds	**184.4**	**179.9**

Table 4: Transitional own funds

The table below shows the transitional own funds disclosure at 31 December 2017.

Equity instruments, reserves and regulatory adjustments (£m)	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
CET1 capital: Instruments and reserves		

Equity instruments, reserves and regulatory adjustments (£m)	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
Capital instruments and the related share premium accounts	291.1	—
of which: ordinary shares	291.1	—
Retained earnings	(41.7)	—
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	5.8	—
CET1 capital before regulatory adjustments	**255.2**	**—**
CET1 capital: regulatory adjustments		
Additional value adjustments	(73.8)	—
Year end non elegible earning adjustments	2.9	—
Total regulatory adjustments to CET1	**(70.8)**	**—**
CET1 capital	**184.4**	**—**
AT1 capital	**—**	**—**
Tier 1 capital	**184.4**	**—**
Tier 2 (T2) capital: Instruments and provisions		
Total regulatory adjustments to T2 capital	—	—
T2 capital	**—**	**—**
Total capital	**184.4**	**—**
Total risk weighted assets	**260.5**	**—**
Capital ratios and buffers		
CET1 (as a percentage of risk exposure amount)	70.8%	—
T1 (as a percentage of risk exposure amount)	70.8%	—
Total capital (as a percentage of risk exposure amount)	70.8%	—
of which: capital conservation buffer requirement	1.20%	—
CET1 available to meet buffers (as a percentage of risk exposure amount)	70.8%	—
Amounts below the thresholds for deduction (before risk weighting)		
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0.8	—

Table 5: Common tier 1, additional tier 1 instruments and tier 2 instruments

This table provides a description of the main features of regulatory instruments issued and included as tier 1 capital in Table 2.

Capital instruments main features [1]	At 31 December 2017
Issuer	Pershing Holdings (UK) Limited
Governing law(s) of the instrument	Law of England and Wales

Capital instruments main features [1]	At 31 December 2017
Regulatory treatment	
Capital classification	Common Equity Tier 1
Level	Not applicable
Instrument type	Ordinary shares
Amount recognised in regulatory capital	£291.1m
Issue price	£1
Accounting classification	Shareholders' equity
Original date of issuance	1 April 2013
Perpetual or dated	No maturity
Coupons / dividends	
Fixed or floating dividend	Fully discretionary
Other pertinent information	None

[1] This table is based on Annex II of ITS Regulation (EU) No. 1423/2013. Some 'not applicable' lines have been omitted.

3 Capital requirements

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

Total risk exposure amount £260m

2016: £212m

Total capital requirement £21m

2016: £17m

The PHUK Group has an Internal Capital Adequacy Assessment Process ("ICAAP") which defines the risks that the PHUK Group is exposed to, and sets out the associated capital plan which aims to ensure that the PHUK Group holds an appropriate amount of capital to support its business model, through the economic cycle and given a range of plausible but severe stress scenarios. The plan is reflective of PHUK Group's commitment to a low risk appetite, with no proprietary trading, coupled with a strong capital structure which gives the necessary confidence to our clients.

3.1 Calculating capital requirements

CRD IV allows for different approaches to the calculation of capital requirements. PHUK Group has chosen to use the standardised approach where risk weights are based on the exposure class to which the exposure is assigned and its credit quality. These risk weights used to assess requirements against credit exposures are consistent across the industry. The standardised approach is used for calculating the risk weights assigned to each risk component including credit risk, counterparty credit risk, market risk and operational risk.

Table 6: Capital requirements

This table shows the risk weighted assets using the standardised approach and their respective capital requirements. Significant subsidiaries, PSL and PL, are shown in Appendix 3.

	Risk exposure amount		Capital requirements	
PHUK Group type of risk (£m)	**31-Dec-17**	**31-Dec-16**	**31-Dec-17**	**31-Dec-16**
Credit risk SA*	84.2	53.2	6.7	4.3
Counterparty credit risk SA*	1.5	5.7	0.1	0.5
Settlement risk	11.0	8.0	0.9	0.6
Market risk SA*	35.4	30.5	2.8	2.4
of which: Foreign exchange position risk	35.4	30.5	2.8	2.4
Operational risk	128.5	114.1	10.3	9.1
of which: Standardised approach	128.5	114.1	10.3	9.1
Credit valuation adjustment - Standardised method	—	0.5	—	—

PHUK Group type of risk (£m)	Risk exposure amount 31-Dec-17	Risk exposure amount 31-Dec-16	Capital requirements 31-Dec-17	Capital requirements 31-Dec-16
Total	**260.5**	**211.9**	**20.8**	**17.0**
Total capital			**184.4**	**179.9**
Surplus capital			163.5	163.0

* SA: Standardised approach

PHUK Group meets or exceeds the minimum capital ratios required to maintain a well-capitalised status and to ensure compliance with regulatory requirements at all times. PHUK Group sets internal capital target levels higher than the minimum regulatory requirements to ensure there is a buffer which reflects balance sheet volatility. These ratios have been determined to be appropriate, sustainable and consistent with the capital objectives, business model, risk appetite and capital plan.

4 Risk management objectives and policies

Pershing adopts a prudent approach to all elements of risk to which it is exposed. It is risk averse by nature and manages its business activities in a manner consistent with the tolerances and limits defined within its risk appetite quantitative and qualitative measures. These measures and thresholds are built into its operating processes and governance structures.

Clients and other market participants need to have confidence that PHUK Group and its subsidiaries will remain strong and continue to deliver operational excellence and maintain an uninterrupted service throughout market cycles and especially during periods of market turbulence. PHUK Group is committed to maintaining a strong balance sheet and this philosophy is also consistent with Pershing Group LLC and BNY Mellon as a whole.

Whilst PHUK Group assumes less balance sheet risk than most financial services companies due to its focus on transaction processing, its business model does give rise to some risk . As a consequence, PHUK Group has developed a risk management program that is designed to ensure that:

- Risk tolerances (limits) are in place to govern its risk-taking activities across all businesses and risk types
- Risk appetite principles are incorporated into its strategic decision making processes
- An appropriate risk framework is in place to identify, manage, monitor and report on risk within the governance structure
- Monitoring and reporting of key risk metrics to senior management and the Board takes place
- There is a capital planning process based on a stress testing programme

4.1 Risk governance

4.1.1 Board of Directors

The PHUK Group Board is the senior strategic and decision making body and consists of representatives of BNY Mellon and Senior PHUK Group Management. There are two independent non-executive directors on the boards of Pershing Holdings (UK) Limited, PL and PSL, and one independent non-executive director on the board of PSIL.

The main duty and responsibility of the Board is to define the strategy of PHUK Group and to supervise the management of PHUK Group. Whilst acting autonomously and in accordance with its legal and regulatory requirements, the Board also aligns PHUK Group's strategy to that of its primary shareholder, Pershing Group LLC. The Board delegates day to day responsibility for managing the business to the PHUK Group Executive Committee according to approved plans, policies and risk appetite.

The Board has overall responsibility for the establishment and maintenance of PHUK Group's risk appetite framework and for the approval of the risk appetite statement. The Board ensures that strategic business plans are consistent with the approved risk appetite.

The Board is also responsible for both the management and the oversight of risks, together with the quality and effectiveness of internal controls, but delegates risk management oversight to the PHUK Group Executive Committee, supported by the risk management committees. It is also responsible for reviewing, challenging and approving all risk management processes including risk identification and assessment, stress testing and capital adequacy. The various control functions provide further support for the management of risk within the business.

The Board meets at least quarterly and the directors who served as of 31 December 2017 were:

Name	Role	Nationality	Number of directorships held	Position
E Canning	Director	Canadian & British	4 internal	Chief Services Officer, Pershing
K Cracknell	Director	British	3 internal	Chief Financial Officer, Pershing
J Johnstone	Director	Irish & South African	4 internal	Chief Administrative Officer, EMEA, Non-executive Director & Chair PL, PSL & PHUK Board
M McPhail	Director	British	4 internal 2 external	Independent Non-Executive Director
S O'Connor*	Director	British	4 internal 13 external	Independent Non-Executive Director,
G Towers	Director	British	8 internal 1 external	Chief Executive Officer, Pershing

* 4 internal (constitutes 1 non-executive for the purposes of CRDIV), 13 external (constitutes 4 non-executive for the purposes of CRD IV. CRD IV waiver in place as at 31 December 2017).

4.1.2 Risk Committees

The PHUK Group Executive Committee delegates specific responsibilities to various committees and councils to provide an appropriate oversight and direction to various risk and regulatory processes and activities, including:

Pershing Risk Committee

The Pershing Risk Committee (PRC) provides a senior management oversight to the overall risk framework and identified risk types that could potentially impact PHUK Group. The PRC reports to the PHUK Group Executive Committee and forms a central point for the oversight and management of risk and the escalation of significant risk issues and events to PHUK Group Senior Management, PHUK Group Executive Committee and the PHUK Group Boards. Subsidiary risk committees and councils report to the PRC to ensure a consistent and effective reporting of risks and these include the Credit and Market Risk Committee, the Business Acceptance Committee, Asset and Liability Committee, the Operational Risk Review Council and the Client Assets Council. It is chaired by the Chief Risk Officer.

Credit and Market Risk Committee

The Credit and Market Risk Committee oversees the review of all credit and market risk issues associated with and impacting on business undertaken by PHUK Group. The committee's principal credit risk responsibility is to achieve and maintain an acceptable credit exposure to PHUK Group's clients, as well as to market makers, custodians and banks. It is chaired by the head of credit and market risk.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) is responsible for overseeing the asset and liability management activities of the balance sheets of PHUK Group and for ensuring compliance with all treasury related regulatory requirements.

ALCO is responsible for ensuring that the policy and guidance set through the BNY Mellon's Global ALCO and EMEA ALCO is understood and executed locally. This includes the strategy related to the investment portfolio, placements, interest rate risk, capital management and liquidity risk. It is chaired by the Chief Financial Officer.

Irish Compliance, Risk and Oversight Committee

The Irish Compliance, Risk and Oversight Committee oversees the adherence of Pershing Securities International Limited to applicable Irish laws, guidelines and notices effecting its operations and to fulfill the requirements of the Standards for Stockbrokers, as issued by the Central Bank of Ireland.

Jersey Compliance and Oversight Council

The Jersey Compliance and Oversight Council oversees the adherence of Pershing (Channel Islands) Limited to applicable Jersey laws, guidelines and notices effecting its operations and to fulfill the requirements of the investment firms, as issued by the Jersey Financial Services Commission.

Business Acceptance Committee

The Pershing Business Acceptance Committee (BAC) is an integral part of the new business process and is responsible for the review and approval of all new clients, products/services and material changes to existing processes before they are executed or implemented and includes responsibility for the pricing of new client activity, products and services. It is chaired by the Chief Executive Officer and includes representatives of all of the risk and control functions, as well as line support functions.

Operational Risk Review Council

The Operational Risk Review Council has oversight of the operational risk framework within PHUK Group. The Operational Risk Management Department is responsible for providing all necessary support to ensure that the framework meets regulatory requirements and industry best practice in identifying, measuring and reporting on the relevant operational risks inherent in PHUK Group's business (including events such as, but not limited to, technical system failures, disaster events, failed processes or fraud).

Audit Oversight Review Council

The Audit Oversight Review Council provides review, discussion and challenge of control related issues within PHUK Group. The Council's responsibilities include discussing emerging control risks, thematic control concerns or weaknesses and considering possible means to monitor, control or mitigate such exposures.

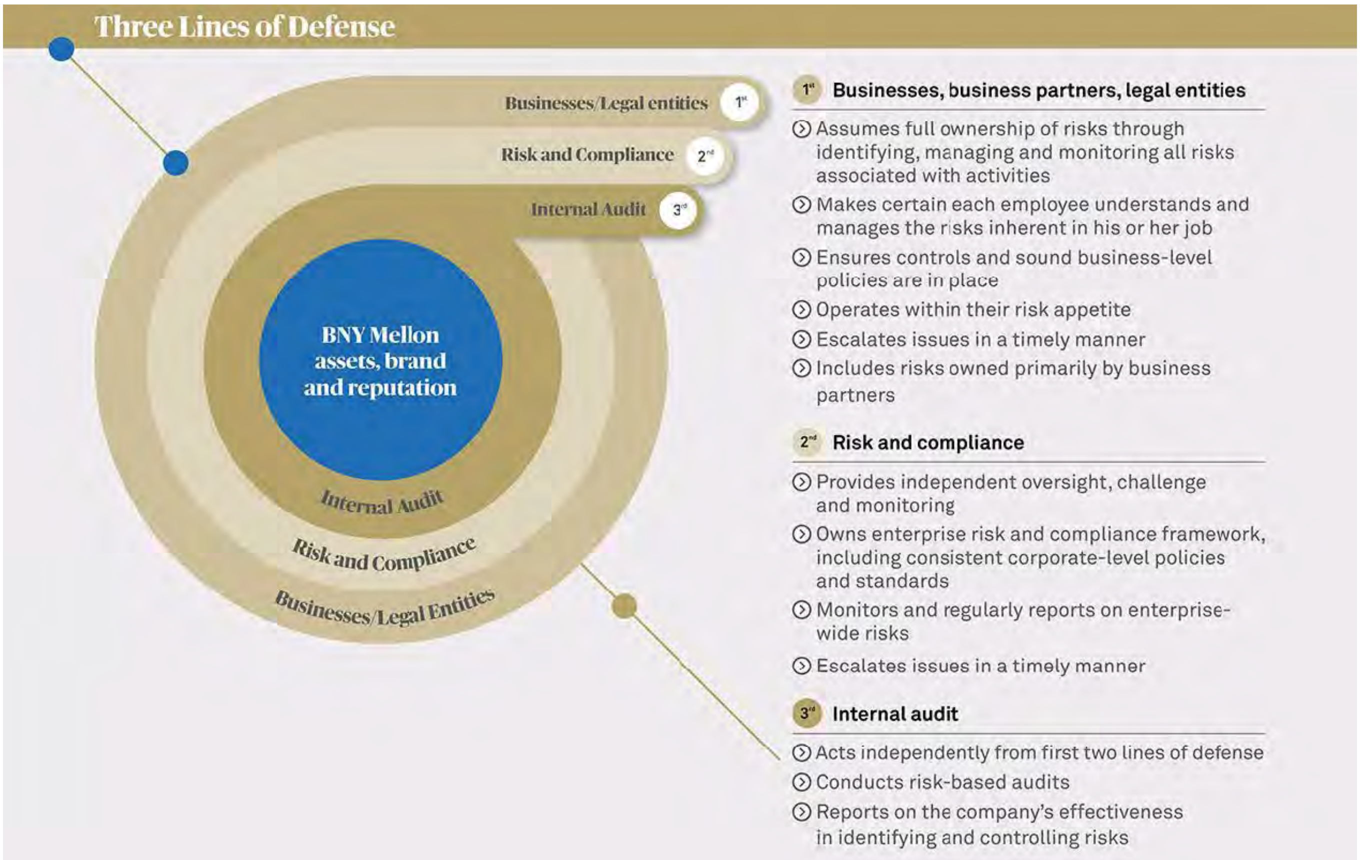
Client Asset Council

The Client Asset Council is responsible for the oversight and governance of PHUK Group's adherence to the FCA, CBI and JFSC custody and client money rules. The council reports to the PRC to confirm the adequacy of systems and controls in place to identify segregate and hold client assets in accordance with regulatory rules.

4.2 Risk management framework

Suitable policies and procedures have been adopted by PHUK Group in order to ensure an appropriate level of risk management is directed at the relevant element of the business. In line with global policy, PHUK Group has adopted the 'Three Lines of Defence' model in deploying its risk management framework (figure 2 below).

Figure 2: Managing Three Lines of Defence



4.3 Risk appetite

The Board adopts a prudent approach to all elements of risk to which it is exposed. It is risk averse by nature and manages its business activities in a manner consistent with the tolerances and limits defined within its risk appetite quantitative and qualitative measures. These measures and thresholds are built into its operating processes and governance structures. The risk appetite statement describes both the nature of, and tolerance for, the material risks that are inherent in PHUK Group's business.

4.4 Stress testing

Stress testing is undertaken at PHUK Group to monitor and quantify risk and ascertain that sufficient capital resources are held against risks on a forward-looking basis. The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to PHUK Group's risk profile. Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by PHUK Group PRC, Executive Committee and the Board.

4.5 Recovery and resolution planning (RRP)

PHUK Group updates its recovery plan annually, in accordance with regulatory guidance. The recovery plan is designed to ensure that the PHUK Group has credible and executable options to meet the challenges that may arise from potential future financial and/or operational crises. PHUK Group also submits its resolution information to the regulator every two years, as prescribed by supervisory policy.

5 Credit risk

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

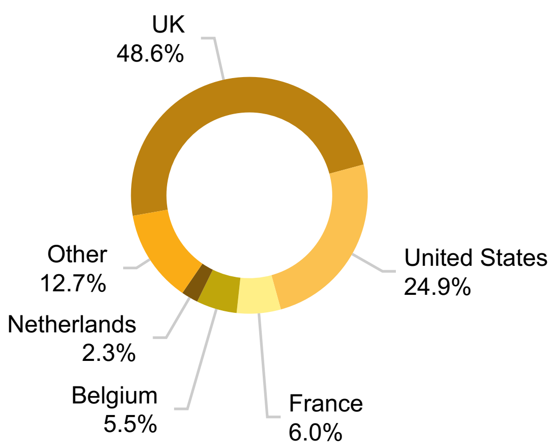
Total net credit exposure amount £413m

2016: £310m

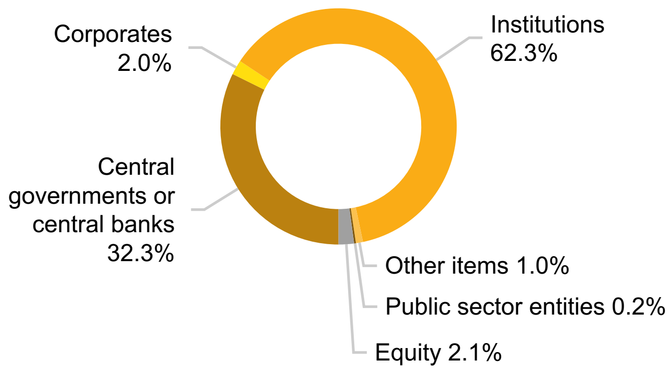
Total on and off-balance sheet exposures £443m

2016: £396m

Standardised credit exposure by country 2017



Standardised credit exposure by class 2017



5.1 Definition and identification

Credit risk is defined as the risk that an obligor will fail to repay a loan or otherwise meet a contractual obligation as and when it falls due. Understanding, identifying and managing credit risk is a central element of PHUK Group’s successful risk management approach.

On balance sheet credit risk covers default risk for loans, commitments, securities, receivables and other assets where the realisation of the value of the asset is dependent on the counterparty’s ability and willingness to repay its contractual obligations.

Due to the nature of PHUK Group’s business as a provider of clearing and settlement services, credit risk mainly arises from the risk of loss in the event that a client, underlying investor or market counterparty fails to meet its contractual obligations to pay for a trade, or to deliver securities for sale. However, the legal structure of the clearing agreements provides PHUK Group with the right to set-off any indebtedness of underlying clients against any credit balance in the name of the same underlying client. PHUK Group also has recourse to securities and cash as collateral and indemnities from client firms in respect of any underlying clients. Consequently, the residual credit risk (i.e. post-mitigation) will devolve to market risk, as the exposure in such cases is the movement in the underlying financial instruments and foreign currency prices. In addition, Pershing also requires most clients to place a security deposit with PHUK Group to cover this potential mark to market exposure.

Credit risk also arises from the non-payment of other receivables, cash at bank, loans to third parties, investment securities and outstanding client invoices and loans to third parties.

5.2 Management of credit risk

PHUK Group manages credit risk exposure by a two-stage process:

1) Setting minimum thresholds for the type of client acceptable to PHUK Group in terms of net worth and business profile, including:
    - The type of business to be conducted through PHUK Group (e.g. retail vs. institutional; agency/matched principal vs. proprietary trading / market making)
    - Markets and financial instruments in which the client can trade
    - Any special conditions clients are subject to (e.g. cash on account)

Obtaining credit approval for a particular client is the primary responsibility of the business as the first line of defence alongside guidance and oversight from credit risk as the second line. Any new relationship requires approval from the Business Acceptance Committee.

2) Monitoring all exposure (both pre- and post-settlement) on a daily basis against various limits for its clients, as follows:
    - Trade limit (set per client following analysis of the financial strength, management expertise, nature of business and expected - or historical - peak and average exposure levels)
    - Gross exposure limit (calculated with reference to the security deposit and net worth of the client and utilised as the higher of total purchases or total sales)
    - Negative mark to market exposure

It should also be noted that the metrics supporting the management of credit risk are monitored on a daily basis and reported to senior management. Breaches are reported to senior management which may lead to management action such as requesting additional collateral, or requiring the client to inject additional capital into the business.

5.3 Governance

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

- Credit Risk Policy for each legal entity describes the outsourcing of credit risk tasks, defines roles and responsibilities and requires reporting to be carried out to each business line and entity that the policy applies to. Any deviation from approved policy requires either senior business or senior legal entity approval depending on the type of event
- Approvals for excesses are controlled using a matrix of credit risk approval authorities held within the Credit Risk Policy - each Credit Risk Officer has his/her own individual delegated approval authority granted by the Director of Credit Risk. He/she must act within those limits when making approvals. If an excess is beyond the officer’s approval limit, it is escalated to a more senior officer as per the applicable Credit Risk Policy. The outsourcing of credit responsibility to credit risk is through the Board approved Credit Risk Policy

- Daily exposure reports are reviewed and signed by a senior member of the Credit Risk Department. The Credit & Market Risk Committee reviews the top exposure items for each client and counterparty weekly; monthly reports are reviewed by the PRC within the overall framework set by the PHUK Group Risk Appetite Statement. At each of these monitoring and review stages action points are recorded to follow up on breaches.

5.4 Analysis of credit risk

Credit risk exposure is computed under the standardised approach which uses external credit assessment institution ratings and supervisory risk weights supplied by external credit assessment agencies. The following credit risk exposure tables summarise the credit exposure for PHUK Group in accordance with the CRD IV requirements.

The definitions below are 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. This function is used to calculate the exposure at default
- **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 for the counterparty
- **Residual maturity** is defined as the period outstanding from the reporting date to the maturity or end date of an exposure

Table 7: Standardised credit exposure by exposure class

The following tables show the credit risk for post CRM techniques using the standardised approach by exposure class at 31 December 2017.

Exposure class (£m)	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	133.5	131.8
Corporates	8.3	9.5
Institutions	257.5	254.6
Other items	4.0	5.3
Public sector entities	1.0	1.6
Retail	—	—
Equity	8.7	8.4
Total	**413.0**	**411.3**

Table 8: Standardised credit exposure by country

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

At 31 December 2017 (£m)	UK	United States	France	Belgium	Netherlands	Other	Total
Central governments or central banks	96.7	36.8	—	—	—	—	133.5
Corporates	8.3	—	—	—	—	—	8.3
Institutions	82.3	66.0	24.8	22.9	9.5	51.9	257.5
Other items	3.7	—	—	—	—	0.3	4.0
Public sector entities	1.0	—	—	—	—	—	1.0
Retail	—	—	—	—	—	—	—
Equity	8.7	—	—	—	—	—	8.7
Total	**200.6**	**102.8**	**24.8**	**22.9**	**9.5**	**52.3**	**413.0**

At 31 December 2016 (£m)	UK	Belgium	Ireland	France	Switzerland	Other	Total
Central governments or central banks	132.2	—	—	—	—	—	132.2
Corporates	0.8	—	—	—	—	0.1	1.0
Institutions	74.3	15.0	7.6	7.4	7.1	51.4	162.8
Other items	5.3	—	0.3	—	—	—	5.6
Public sector entities	1.1	—	0.1	—	—	—	1.1
Retail	—	—	—	—	—	—	—
Equity	—	7.6	—	—	—	—	7.6
Total	**213.7**	**22.6**	**8.0**	**7.4**	**7.1**	**51.6**	**310.3**

Table 9: Standardised post mitigated credit exposures by counterparty type

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

At 31 December 2017 (£m)	General governments	Credit institutions	Other financial corporations	Various balance sheet items	Total
Central governments or central banks	133.5	—	—	—	133.5
Corporates	—	—	8.3	—	8.3
Institutions	—	257.5	—	—	257.5
Other items	—	—	—	4.0	4.0
Public sector entities	1.0	—	—	—	1.0
Retail	—	—	—	—	—
Equity	—	—	—	8.7	8.7
Total	**134.5**	**257.5**	**8.3**	**12.7**	**413.0**

Table 10: Standardised credit exposure by residual maturity

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

At 31 December 2017 (£m)	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments or central banks		36.7	96.8			133.5
Corporates	8.3					8.3
Institutions	257.5					257.5
Other items					4.0	4.0
Public sector entities	1.0					1.0
Retail	—	—	—	—	—	—
Equity	8.7	—	—	—	—	8.7
Total	**275.5**	**36.7**	**96.8**	**—**	**4.0**	**413.0**

5.5 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 2017, PHUK Group 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. PHUK Group did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year.

Table 11: Credit quality of exposures by counterparty type

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

Counterparty type at 31 December 2017 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
General governments	—	134.5	—	—	—	—	134.5
Credit institutions	—	287.6	—	30.1	—	30.1	257.5
Other financial corporations	—	8.3	—	—	—	—	8.3
Various Balance Sheet Items	—	12.7	—	—	—	—	12.7

Counterparty type at 31 December 2017 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Total	**—**	**443.1**	**—**	**30.1**	**—**	**30.1**	**413.0**

Counterparty type at 31 December 2016 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
General governments	—	133.3	—	—	—	—	133.3
Credit institutions	—	235.3	—	72.5	—	72.5	162.8
Other financial corporations	—	14.0	—	13.0	—	13.0	1.0
Various Balance Sheet Items	—	13.2	—	—	—	—	13.2
Total	**—**	**395.9**	**—**	**85.6**	**—**	**85.6**	**310.3**

Table 12: 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.

Industry type at 31 December 2017 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Financial and insurance activities	—	443.1	—	30.1	—	30.1	413.0
Other services	—	—	—	—	—	—	—
Total	**—**	**443.1**	**—**	**30.1**	**—**	**30.1**	**413.0**
Of which: Loans	—	—	—	—	—	—	—

Industry type at 31 December 2016 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Financial and insurance activities	—	395.9	—	85.6	—	85.6	310.3
Other services	—	—	—	—	—	—	—
Total	**—**	**395.9**	**—**	**85.6**	**—**	**85.6**	**310.3**
Of which: Loans	—	—	—	—	—	—	—

Table 13: Credit quality of exposures by geographical breakdown

This table shows an analysis of past due, impaired exposures and allowances by country using the IFRS methodology.

Counterparty type at 31 December 2017 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
United Kingdom	—	230.7	—	30.1	—	30.1	200.6
United States	—	102.8	—	—	—	—	102.8
France	—	24.8	—	—	—	—	24.8
Belgium	—	22.9	—	—	—	—	22.9
Netherlands	—	9.5	—	—	—	—	9.5
Other	—	52.3	—	—	—	—	52.3
Total	**—**	**443.1**	**—**	**30.1**	**—**	**30.1**	**413.0**

Counterparty type at 31 December 2016 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
UK	—	277.2	—	50.7	—	50.7	226.4
Belgium	—	22.6	—	—	—	—	22.6
Ireland	—	12.5	—	4.6	—	4.6	7.9
France	—	7.4	—	—	—	—	7.4
Switzerland	—	7.1	—	—	—	—	7.1
Other	—	69.0	—	30.2	—	30.2	38.8
Total	**—**	**395.9**	**—**	**85.6**	**—**	**85.6**	**310.3**

6 Credit risk mitigation

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

Total gross credit risk exposures (includes on- and off- balance sheet amounts)	£420m 2016: £444m
Total gross credit risk exposures secured (includes on- and off- balance sheet amounts)	£30m 2016: £105m

PHUK Group mitigates credit risk through a variety of strategies including obtaining collateral, and indemnities from clients.

6.1 ISDA master agreements and netting

The International Swaps and Derivatives Association (ISDA) Master Agreement incorporates schedules that allow the contracting parties to customise the terms and conditions to their mutual satisfaction to cover termination events, netting arrangements, security and other matters.

Netting may take two different forms, close-out netting and settlement netting. For Foreign Exchange (Fx) Forward business, PHUK Group adheres to the ISDA dispute resolution Stay Protocol whereby adopting institutions agree to obey resolution-related regulatory stays (up to 48 hours) imposed by any of 6 major jurisdictions with respect to other adopting institutions.

6.2 Collateral valuation and management

PHUK Group can receive collateral from clients which can include guarantees, cash or eligible debt securities and has the ability to call on this collateral in the event of a default by the client

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

6.3 Wrong-way risk

PHUK Group takes particular care to ensure that wrong-way risk between collateral and exposures does not exist. Wrong-way risk results when the exposure to the client or market counterparty increases when the counterparty’s credit quality deteriorates.

6.4 Credit risk concentration

PHUK Group is exposed to credit risk concentration through exchanges and central counterparties, correspondent banks and issuers of securities. These risks are managed and mitigated through the establishment of various limits, on-going monitoring of exposure, collateral and contractual obligations upon the client, including margin calls.

The number of counterparties PHUK Group is willing to place funds with is limited and hence, concentration risk can arise from cash balances placed with a relatively small number of counterparties. To mitigate this, exposures are only placed on a very short-term basis, generally overnight (maximum of 180 days), ensuring ability to withdraw funds in a timely manner.

Table 14: Credit risk mitigation techniques - overview

31 December 2017 (€m)	Exposures unsecured: carrying amount	Total Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Central governments or central banks	133.5	—	—	—	—
Corporates	8.3	—	—	—	—
Institutions	264.8	30.1	30.1	—	—
Other items	4.0	—	—	—	—
Public sector entities	1.0	—	—	—	—
Retail	—	—	—	—	—
Equity	8.7	—	—	—	—
Total exposures	**420.3**	**30.1**	**30.1**	**—**	**—**
Of which defaulted	—	—	—	—	—

Financial and other eligible collateral can include cash, debt securities, or equities, and their values are taken into account for the purposes of calculating the risk weighted exposure amount of the underlying exposure.

There are no exposures covered by guarantees or credit derivatives at 31 December 2017. Using guarantees has the effect of replacing the risk weight of the underling exposure with that of the institution providing the credit protection. Guarantors are primarily rated as investment grade.

7 External credit rating assessment institutions (ECAIs)

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

Total risk weighted assets £84m
2016: £53m

Total credit risk exposure post CCF and CRM £413m
2016: £310m

The standardised approach requires PHUK Group to use risk assessments prepared by External Credit Assessment Institutions (ECAIs) to determine the risk weightings applied to rated counterparties. PHUK Group uses S&P Global Ratings, Moody's and Fitch Ratings as its chosen ECAIs. There has been no change to these ECAIs during the year.

Table 15: Mapping of ECAIs credit assessments to credit quality steps

PHUK Group 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 PHUK Group'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 16: Credit quality steps and risk weights

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

Exposure class	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6
Central governments and central banks	0%	20%	50%	100%	100%	150%
Public sector entities	20%	50%	100%	100%	100%	150%
Institutions	20%	50%	50%	100%	100%	150%
Institutions up to 3 months residual risk	20%	20%	20%	50%	50%	150%
Unrated institutions	20%	50%	100%	100%	100%	150%

Exposure class	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6
Corporates	20%	50%	100%	100%	150%	150%
Securitisation	20%	50%	100%	350%	1250%	1250%
Institutions and corporates with short-term credit assessment	20%	50%	100%	150%	150%	150%
Collective investment undertakings ('CIUs')	20%	50%	100%	100%	150%	150%
Covered bonds	10%	20%	20%	50%	50%	100%

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

Table 17: 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 PHUK Group. 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 at 31 December 2017 (£m)	On-	Off-	On-	Off-	RWA	RWA density
Central governments or central banks	133.5	—	133.5	—	—	—%
Corporates	8.3	—	8.3	—	8.3	100%
Institutions	287.6	—	257.5	—	61.3	24%
Other items	4.0	—	4.0	—	4.0	100%
Public sector entities	1.0	—	1.0	—	1.9	186%
Retail	—	—	—		—	—%
Equity	8.7	—	8.7	—	8.7	100%
Total	**443.1**	**—**	**413.0**	**—**	**84.2**	**20%**

Table 18: Credit risk exposure by asset class and risk weight post CCF and CRM

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

Exposure class at 31 December 2017 (£m)	—%	20%	50%	75%	100%	150%	250%	Total
Central governments or central banks	133.5	—	—	—	—	—	—	133.5
Corporates	—	—	—	—	8.3	—	—	8.3
Institutions	7.2	222.5	22.0	—	5.8	—	—	257.5

External Credit Rating Assessment Institutions (ECAIs)

Exposure class at 31 December 2017 (£m)	—%	20%	50%	75%	100%	150%	250%	Total
Other items	—	—	—	—	4.0	—	—	4.0
Public sector entities	—	0.3	—	—	—	—	0.7	1.0
Retail	—	—	—	—	—	—	—	—
Equity	—	—	—	—	8.7	—	—	8.7
Total	**140.7**	**222.8**	**22.0**	**—**	**26.8**	**—**	**0.7**	**413.0**

Exposure class at 31 December 2016 (£m)	—%	20%	50%	75%	100%	150%	250%	Total
Central governments or central banks	133.6	—	—	—	—	—	—	133.6
Corporates	—	—	—	—	2.2	—	—	2.2
Institutions	—	59.6	9.8	—	0.7	0.1	—	70.1
Other items	—	—	—	—	5.9	—	—	5.9
Public sector entities	—	0.2	—	—	—	—	0.8	1.0
Retail	—	—	—	—	—	—	—	—
Equity	—	—	—	—	6.2	—	—	6.2
Total	**133.6**	**59.8**	**9.8**	**—**	**15.1**	**0.1**	**0.8**	**219.2**

8 Counterparty credit risk

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

Counterparty credit risk exposure £7m

2016: £28m

Risk weighted assets £1m

2016: £6m

Counterparty credit risk is the risk of a counterparty to a contract (recorded in either the trading book or non-trading book) 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.

Table 19: Analysis of the counterparty credit risk (CCR) exposure by approach

This table shows a comprehensive view of the methods used to calculate counterparty credit risk regulatory requirements and the main parameters used within each method.

Counterparty credit risk (£m)		
Derivatives - mark to market method	**31 December 2017**	**31 December 2016**
Gross positive fair value of contracts	—	—
Potential future credit exposure	—	—
Netting benefits	—	—
Net current credit exposure	6.9	47.8
Collateral held notional value	—	19.8
Exposure and collateral adjustments	—	(0.4)
Net derivatives credit exposure	**6.9**	**28.4**
Risk weighted assets	1.4	5.7
SFT - under financial collateral comprehensive method	**31 December 2017**	**31 December 2016**
Net current credit exposure	—	—
Net SFT credit exposure	—	—
Risk weighted assets	—	—
Counterparty credit risk exposure	**6.9**	**28.4**

Note: SFT (Securities Financing Transactions)

8.1 Credit valuation adjustment

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

As at 31 December 2017 PHUK Group has no exposure subject to the credit valuation adjustment capital charge.

Table 20: CCR exposures by exposure class and risk weight

This table shows the breakdown of counterparty credit risk exposures by exposure class and risk weight attributed according to the standardised approach.

Exposure class at 31 December 2017 (£m)	—%	20%	75%	100%	Other	Total
Central governments or central banks	—	—	—	—	—	—
Corporates	—	—	—	—	—	—
Institutions	—	7.4	—	—	—	7.4
Other items	—	—	—	—	—	—
Public sector entities	—	—	—	—	—	—
Retail	—	—	—	—	—	—
Equity	—	—	—	—	—	—
Total	**—**	**7.4**	**—**	**—**	**—**	**7.4**

Exposure class at 31 December 2016 (£m)	—%	20%	75%	100%	Other	Total
Central governments or central banks	—	—	—	—	—	—
Corporates	—	—	—	—	—	—
Institutions	—	28.3	—	—	—	28.3
Other items	—	—	—	—	—	—
Public sector entities	—	—	—	—	—	—
Retail	—	—	—	—	—	—
Equity	—	—	—	—	—	—
Total	**—**	**28.3**	**—**	**0.1**	**—**	**28.4**

Table 21: Impact of netting and collateral held on exposure values

This table provides an overview of the collateral held on exposures.

31 December 2017 (£m)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives by underlying	6.9		6.9	—	6.9
Securities Financing Transactions	—		—	—	—
Cross-product netting	—		—	—	—
Total	**6.9**		**6.9**	**—**	**6.9**

9 Asset encumbrance

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

Carrying amount - encumbered assets

£11m

2016: £8m

Carrying amount - unencumbered assets

£950m

2016: £543m

Table 22: Encumbered assets

At 31 December 2017	Encumbered assets				Unencumbered assets			
(£m)	Carrying amount	of which notionally eligible EHQLA and HQLA	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	**11.1**	**—**			**949.9**	**—**		
Loans on demand	—	—			676.7	—		
Equity instruments	—	—			8.7	—		
Debt securities	—	—	—	—	132.8	—	—	—
of which: issued by general governments	—	—	—	—	132.8	—	—	—
Loans & advances other than loans on demand	11.1	—	—	—	—	—	—	—
Other assets	—	—			131.7	—		

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

Table 23: Collateral encumbrance

			Unencumbered	
	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
At 31 December 2017 (£m)		of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA
Collateral received by the reporting institution	**—**	**—**	**99.2**	**—**
Equity instruments	—	—	20.1	—
Debt securities	—	—	0.5	—

At 31 December 2017 (£m)	Fair value of encumbered collateral received or own debt securities issued	of which notionally elligible EHQLA and HQLA	Unencumbered: Fair value of collateral received or own debt securities issued available for encumbrance	of which EHQLA and HQLA
of which: issued by general governments	—	—	0.5	—
Other collateral received	—	—	78.6	—
Total assets, collateral received & own debt securities issued	**11.1**	**—**		

Table 24: Sources of encumbrance

At 31 December 2017 (£m)	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	**11.1**	**11.1**
Deposits	11.1	11.1
Collateralised deposits other than repurchase agreements	11.1	11.1
Total sources of encumbrance	**11.1**	**11.1**

Note: ABS (Asset-Backed Securities)

10 Market risk

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

Market risk weighted assets £35m

2016: £30m

Market risk capital requirements £3m

2016: £2m

Market risk is the risk of adverse change to the economic condition of PHUK Group resulting from variations in prices, rates, implied volatilities, or correlations of market risk factors. Market risk factors include but are not limited to interest rates, foreign exchange rates, equity prices, credit spreads, prepayment rates, and commodity prices. All open positions are closely monitored.

By simply executing orders on behalf of its clients, the PHUK Group business model does not result in any proprietary trading or high risk investments. However it does act as a risk-less principal between its clients and the market which results from time to time in a small position, including in foreign exchange, and which is traded out on an expedited basis. The PHUK Group Credit and Market Risk Committee set small overall limits for foreign exchange positions resulting from client-generated exposure.

Table 25: Market risk - risk weighted assets and capital required

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

Position risk components at 31 December 2017 (£m)	Risk weighted assets	Capital requirements
Foreign exchange risk	35.4	2.8
Total	**35.4**	**2.8**

11 Interest rate risk in the banking book

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

PHUK Group does not have any material exposure to interest rate risk in its non-trading book.

12 Operational risk

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

Operational risk exposure amount

£129m

2016: £114m

Operational risk capital requirements

£10m

2016: £9m

Operational risk is defined as being the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events (including legal risk, but excluding strategic risk). However, the PHUK Group Operational Risk Policy further extends this definition to include any operational risk to achieving the business objectives of PHUK Group and causing financial loss, regulatory action or reputational damage to the standing of PHUK Group.

The PHUK Group business model is primarily designed to provide clearing, settlement and custody services to a variety of financial institutions. Within the PHUK Group business model operational risk may arise from errors in transaction processing, breaches of compliance requirements, internal or external fraud, business disruption due to system failures, execution, delivery and process management failures or other events. Operational risk can also arise from potential legal or regulatory actions caused by non-compliance with regulatory requirements, prudential ethical standards or contractual obligations.

12.1 Operational risk management framework

PLC seeks to manage the inherent risk within its operational processes through an Operational Risk Management Framework (“ORMF”) that is embedded into normal business processes to manage.

PLC‘s ORMF relies on a culture of risk awareness, a clear governance structure and, operational risk policies and procedures, which define the roles and responsibilities of the First, Second and Third line of Defence. These policies and procedures complement each other to ensure that the operational risks of the business are effectively identified, managed, mitigated (where possible) and reported to the appropriate governance committees on a monthly basis.

The PLC ORMF has been designed to integrate with the wider group Risk Management Framework and provide consistent capture, management and governance of operational risks. It is aligned around the elements of the risk management cycle (Identify, Measure, Manage and Report) and includes the requirements of good governance and capital planning as key elements.

12.2 Operational risk capital resource requirement

PHUK Group calculates the Pillar 1 operational risk capital resource requirement under the standardised approach. Pershing has 3 applicable business lines as below with their beta factor.

Category	Beta
Trading and sales	18%
Agency services	15%
Retail brokerage	12%

13 Leverage

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

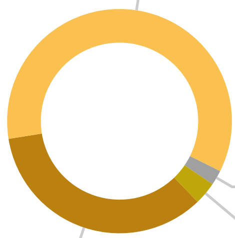
Total leverage ratio exposure £420m

2016: £536m

Leverage ratio 43.9%

2016: 33.5%

CRR banking book leverage ratio exposures



Although the BNY Mellon Corporation manages its leverage ratio in line with US regulatory limits, PHUK Group itself is not subject to a leverage ratio requirement in the UK.

Nevertheless PHUK Group monitors its leverage position and reports accordingly. The table below is reflective of the standard EBA reporting format, but PHUK Group is mindful of the exclusion for Bank of England reserves from the leverage exposure value that has been prescribed by the PRA, which would dramatically reduce this value and hence increase the leverage ratio itself.

The leverage ratio is calculated by dividing tier 1 capital by a total exposure measure which is comprised of a defined sum of asset exposure values and off-balance sheet items.

Table 26: Leverage ratio summary

This table shows summary reconciliation of accounting assets and leverage ratio exposures at 31 December 2017.

At 31 December 2017 (£m)	
Total assets as per published financial statements	**961.0**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	—

At 31 December 2017 (£m)	
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"	—
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	(540.7)
Total leverage ratio exposure	**420.3**

Table 27: Leverage ratio common disclosure

This table shows the calculation of the leverage ratio and total exposures at 31 December 2017.

Regulatory leverage ratio exposures at 31 December 2017 (£m)	
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	494.1
Asset amounts deducted in determining Tier 1 capital	(73.8)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**420.3**
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	**—**
Capital and total exposures	
Tier 1 capital	184.4
Exposures of financial sector entities according to Article 429(4) 2nd of CRR	—
Leverage ratios	
Total exposures	**420.3**

Regulatory leverage ratio exposures at 31 December 2017 (£m)	
Leverage ratio - using a transitional definition of Tier 1 capital	43.9%
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	Transitional
Amount of derecognised fiduciary items in accordance with Article 429(11) of CRR	—

Table 28: 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 2017.

CRR leverage ratio exposures (£m)	
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**420.3**
Trading book exposures	32.6
Banking book exposures, of which:	387.7
Covered bonds	—
Exposures treated as sovereigns	134.5
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	—
Institutions	232.2
Secured by mortgages of immovable properties	—
Retail exposures	—
Corporate	8.3
Exposures in default	—
Other exposures	12.7

14 Remuneration

The following risk metrics present PHUK Group's risk components as at 31 December 2017.

Total remuneration	£3.8m 2016: £3.8m
Total deferred variable remuneration outstanding from previous years	£0.8m 2016: £0.7m

14.1 Governance

The governance of remuneration matters for BNYM and its group entities, including Pershing, is overseen by four committees, each with separate responsibilities in respect of remuneration as summarised below:

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

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

EMEA Remuneration Governance Committee ("ERGC") is a regional governance committee that was established to ensure alignment of remuneration arrangements operated within BNYM EMEA with local laws and regulations impacting on remuneration. The ERGC is responsible for ensuring that local BNYM 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 BNYM (excluding IM), 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 to evaluate and recommend compensation reductions for all employees. These decisions are based on feedback regarding risk, compliance, audit and legal outcomes as well as situations of an employee engaged in fraud or directly or indirectly to have contributed to a financial restatement or other irregularity. The ICRC is a management-level committee that reports its recommendations to the HRCC. Ex ante adjustments are recommended by the employee's management for review and approval by the committee and ex post adjustments are formulated by the committee. The Chief Human Resources Officer chairs the committee supported by the Global Head of Compensation and Benefits. Voting members include the Chief Executive Officer, Chief Risk Officer, Chief Compliance Officer, Chief Auditor, Chief Financial Officer and General Counsel.

BNYM undergoes an annual attestation process to ensure that its remuneration practices comply with all local laws and regulations as well as best market practice. The implementation of BNYM's remuneration policies is subject to an annual independent internal review by the internal audit function.

14.2 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. We pay for performance, both at the individual and corporate level. We value individual and team contributions and reward based on how both contribute to business results. In support of this philosophy, variable compensation is used as a means of recognising performance.

Through our compensation philosophy and principles, we align the interests of our employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value; by rewarding success; and by ensuring that our incentive compensation arrangements do not encourage our 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. Our compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. We aim to ensure that both fixed and variable compensation are consistent with business and market practice, fixed compensation is sufficient to provide for a fully flexible variable compensation program, and variable compensation is in the form of annual and/or long-term incentives, and, where appropriate, granted over equity to align employee remuneration with that of shareholder growth.

14.3 Fixed remuneration

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

The fixed remuneration of an employee is determined by the job performed, its level of complexity and responsibility, and the remuneration paid in the market for that type of job. It is set, 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 other 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 our annual Proxy Statement to shareholders.

14.4 Ratio between fixed and variable pay

In respect of remuneration to material risk takers as determined under the requirements of the PRA and FCA ("MRTs"), the shareholder of Pershing, 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 firm's ability to maintain a sound capital base, and allows for appropriate incentivisation and reward in accordance with our Pay for Performance philosophy.

14.5 Variable compensation funding and risk adjustment

The employees of Pershing 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.

For MRTs, the variable compensation portion of an award comprises four different parts: upfront cash, upfront equity, deferred cash and deferred equity, in order to comply with local regulations. The deferred compensation component awarded in the form of BNY Mellon restricted stock units aligns a portion of the variable compensation award with the management of longer-term business risk.

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

14.6 Deferral policy and vesting criteria

For more senior-level employees, a portion of variable compensation will be deferred, under ordinary circumstances for a period of at least three years with vesting on an annual one-third basis (albeit such compensation may be deferred for longer periods and with a revised vesting schedule, and, for MRTs, in line with regulatory requirements), and will normally be subject to the employee remaining in employment until the deferred payment date (unless provided otherwise under national law). The deferred component of the variable compensation award is usually delivered as restricted stock units whose value is linked to BNY Mellon's share price. The percentage of the variable compensation award to be deferred depends on the level and responsibility of the individual's role (including if they are a MRT), regulatory requirements and the amount and value of the award.

14.7 Variable remuneration of control function staff

The variable compensation awarded to control function staff (for example: audit, compliance and risk) is dependent on performance that is assessed according to the achievement of objectives specific to their functional role that 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.

14.8 Quantitative disclosures

The tables below provide details of the aggregate remuneration of senior management and MRTs for Pershing for the year ending 31 December 2017.

The figures illustrate figures from three Pershing financial legal entities:

- Pershing Ltd
- Pershing Securities International Ltd
- Pershing (Channel Islands) Ltd

For completeness, this group of staff is limited to those identified as MRTs. The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of Pershing to reflect the full reporting period.

The tables below show the combined remuneration data for one Senior Manager MRT and 20 Other MRTs. The data has been combined in order to keep the remuneration data for the Senior Manager MRT anonymised.

MRTs categorised as 'Senior Managers' carry out a senior management function as determined by the relevant regulators.

Table 29: Aggregate remuneration expenditure by business

This table shows the aggregate remuneration expenditure for MRTs in 2017 by business.

Business line	Investment services	Other[2]	Total
Total remuneration (£000s) [1]	**3,791**	**—**	**3,791**

[1] Includes base salary and other cash allowances, plus any incentive awarded for full year 2017. Pension contribution is not included.
[2] Includes all support functions and general management positions.

Table 30: Aggregate remuneration expenditure by remuneration type

This table shows the aggregate remuneration expenditure for MRTs by remuneration type in 2017.

Identified staff	Senior management	Other MRTs	Total
Number of beneficiaries	—	21	21
Fixed remuneration (£000s) [3]	—	2,777	2,777

Identified staff	Senior management	Other MRTs	Total
Total variable remuneration (£000s)	**—**	**1,014**	**1,014**
Variable cash (£000s)	—	629	629
Variable shares (£000s)	—	385	385
Total deferred remuneration awarded during the financial year (£000s)	—	342	342
Total deferred remuneration paid out during the financial year (£000s)	—	247	247
Total deferred remuneration reduced through performance adjustments (£000s)	—	—	—

[3] Fixed remuneration includes base salary and any cash allowances. Pension contribution is not included.

Table 31: Deferred variable remuneration

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

Identified staff	Senior management	Other MRTs	Total
Number of beneficiaries	—	9	9
Total deferred variable remuneration outstanding from previous years (£000s)	**—**	**794**	**794**
Total vested (£000s)[4]	—	247	247
Total unvested (£000s)[5]	—	547	547

[4] Includes total vested cash and equity. Equity portion is valued as at the date the award vested.

[5] Includes total unvested cash and equity. Equity portion is valued as at 1 January 2018.

In regards to 2017 awards, PHUK Group did not award any sign-on or severance payments. There were also no individuals remunerated EUR 1 million or more.

Appendix 1 Other Risks

Liquidity risk

Liquidity risk is the risk that although solvent PHUK Group either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only as excessive cost. PHUK Group maintains a strong liquidity profile by actively managing its liquidity positions and ensuring that there are sufficient deposits and funding in place to meet timely payment and settlement obligations under both normal and stressed conditions. A liquidity risk management framework has been established which is maintained on a day to day basis by the Treasury department. The ALCO provides oversight and ultimately the PRC and the Board. PHUK Group complies with FCA liquidity requirements at all times including the maintenance of a liquidity assets buffer (LAB).

Business and financial risk

Regulatory risk

Regulatory risk is the risk of legal or regulatory sanctions, financial loss or reputational damage caused by a failure to comply with regulatory requirements. PHUK Group seeks to reduce regulatory risk through maintaining a culture that respects controls and regulatory principles and requires the escalation of concerns. Existing and new directives and regulations are monitored and reviewed by Compliance and Finance for finance regulatory reporting management and findings are reported to senior management and the Board. Strategies and changes to comply with new regulations are put in place when necessary.

Non-trading book exposures in equities

As at 31 December 2017 PHUK Group had £9m of non-trading book exposures in equities. All equity investments are unquoted.

Securitisation risk

Securitisation risk is the risk that the capital resources held in respect of assets that PHUK Group has securitised is insufficient to cover associated liabilities. As at 31 December 2017 and during the reporting period PHUK Group did not have any securitisation risk-weighted exposure.

Business / Strategic risk

Business risk is any risk to PHUK Group arising from changes in its business including the acute risk to earnings posed by falling or volatile income; and the broader risk of PHUK Group's business model or strategy proving inappropriate due to macroeconomic, geopolitical, industry, regulatory or other factors; or its remuneration policy. PHUK Group is committed to maintaining a relevant business strategy that continues to meet the business requirements and needs of its clients and responds to the changing needs of the financial industry. The PHUK Group Executive Committee has established a robust governance structure and oversight to seek to ensure that all business plans are designed and executed in a controlled and prudent manner. The development of PHUK Group's business objectives are undertaken by the PHUK Group Executive Committee and approved by the Board.

Interest rate risk

Interest rate risk (IRR) is the risk associated with changes in interest rates that affect net interest income (NII) from interest-earning assets and interest-paying liabilities. IRR exposure in the non-trading book arises from on and off-balance sheet assets and liabilities and changes with movements in domestic and foreign interest rates. PHUK Group does not have any material exposure to interest rate risk in its non-trading book.

Concentration risk

Concentration risk is the risk of loss arising from significant interrelated asset or liability exposures, which in cases of distress associated with markets, sectors, countries, or areas of activity, may threaten the soundness of the institution. Traditionally analysed in relation to credit activities, concentration risk arises from exposures that may arise within or across different risk types, including intra-risk concentration where exposure concentration exists within a single risk type, and inter-risk concentrations arising from interactions between different risk exposures across different risk categories connected by a common risk factor (e.g. counterparties, vendor, economic sector, geographic region, and/or financial instrument/product type).

Group risk

Group risk is the risk that the financial position of PHUK Group may be adversely affected by its relationships (financial or non-financial) with other entities in the BNY Mellon group or by risk which may affect the financial position of the whole group, including reputational contagion. PHUK Group maintains appropriate oversight and ownership of all processes and activities outsourced to other group entities. Because group risk typically arises as a consequence of another risk event and, as such, PHUK Group considers group impact as part of its overall risk management process.

Model risk

Model risk refers to the possibility of unintended business outcomes arising from the design, implementation or use of models. Model risk includes the potential risk that management makes incorrect decisions based either upon incorrect model results, or incorrect understanding and use of model results. PHUK Group uses models in its risk management framework. All models have been assessed in line with the relevant corporate policies and model risk management framework.

Appendix 2 Glossary of Terms

The following terms are used in this document:

- **ALCO:** Asset and Liability Committee
- **Basel III:** The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision (BCBS) in 2010
- **BNY Mellon:** The Bank of New York Mellon Corporation
- **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
- **Central Bank of Ireland (CBI):** Is Ireland's central bank and financial services regulator for most categories of financial firms
- **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
- **EMEA:** Europe, Middle-East and Africa region
- **Exposure:** A claim, contingent claim or position which carries a risk of financial loss
- **Exposure at default (EAD):** The amount expected to be outstanding, after any credit risk mitigation, if and when a counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures over a one-year time horizon
- **Financial Conduct Authority (FCA):** The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms, prudential standards in the UK. 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

- **Jersey Financial Services Commission (JFSC):** The Commission is responsible for the regulation, supervision and development of the financial services industry in the Island of Jersey

- **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:** PHUK Group's risk governance framework has been developed in conjunction with BNY Mellon requirements. Key elements of the framework are:
  - Formal governance committees, with mandates and 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 Weighted Assets (RWA):** Assets that are adjusted for their associated risks using weightings established in accordance with CRD IV requirements

- **Standardised approach:** Method used to calculate credit risk capital requirements using the Basel III, CRD IV, CRR model supplied by the BCBS. All financial institutions must opt to either use the Standardised Approach (SA) specified by the regulator, or develop and use their own Internal Ratings Model (IRM). The SA model uses external credit assessment institution ratings and supervisory risk weights supplied by external credit assessment agencies

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

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

Appendix 3 Supplementary Tables

Reconciliation of Regulatory Own Funds for the significant subsidiary PSL

At 31 December 2017 (£m)	Consolidated balance sheet	Regulatory adjustments	Regulatory balance sheet
Assets			
Cash in hand and on demand balances at central banks	154.9	(22.1)	132.8
Securities settlement amounts receivable	441.7	24.7	466.4
Investments	141.8	17.2	159.0
Amounts owed by group undertakings	1.6	(1.6)	—
Other debtors	41.1	5.5	46.6
Other assets	10.6	(3.4)	7.2
Total assets	**791.7**	**20.3**	**812.0**
Liabilities			
Bank loans and overdrafts	271.8	(32.8)	239.0
Securities settlement amounts payable	364.8	18.1	382.9
Other liabilities	2.4	3.8	6.2
Accruals and deferred income	28.6	31.2	59.8
Total liabilities	**667.6**	**20.3**	**687.9**
Shareholders' equity			
Share capital	113.4	—	113.4
Profit and loss account	4.9	—	4.9
Other reserves	5.8	—	5.8
Other adjustments and assets deducted	—	—	—
Equity	**124.1**	**—**	**124.1**
Total equity and liabilities	**791.7**	**20.3**	**812.0**

Reconciliation of Regulatory Own Funds for the significant subsidiary PL

At 31 December 2017 (£m)	Consolidated balance sheet	Regulatory adjustments	Regulatory balance sheet
Assets			
Cash in hand and on demand balances at central banks	17.5	(1.8)	15.7
Securities settlement amounts receivable	1.1	—	1.1
Fixed assets	127.2	(112.2)	15.0
Prepayments and accrued income	22.2	0.2	22.4
Other assets	1.3	(10.2)	(8.9)
Total assets	**169.3**	**(124.0)**	**45.3**
Liabilities			
Securities settlement amounts payable	1.1	—	1.1
Other liabilities	0.6	1.4	2.0
Accruals and deferred income	8.3	0.6	8.9
Provision for liabilities and commitments	0.8	—	0.8
Total liabilities	**10.8**	**2.0**	**12.8**
Shareholders' equity			
Share capital	127.1	24.2	151.3

At 31 December 2017 (£m)	Consolidated balance sheet	Regulatory adjustments	Regulatory balance sheet
Profit and loss account	28.4	(28.4)	—
Other reserves	3.0	1.3	4.3
Other adjustments and assets deducted	—	(123.1)	(123.1)
Equity	**158.5**	**(126.0)**	**32.5**
Total equity and liabilities	**169.3**	**(124.0)**	**45.3**

Transitional Own Funds disclosure for the significant subsidiary PSL

Equity instruments, reserves and regulatory adjustments (£m)	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
CET1 capital: Instruments and reserves		
Capital instruments and the related share premium accounts	113.4	—
of which: ordinary shares	113.4	—
Retained earnings	4.9	—
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	5.8	—
CET1 capital before regulatory adjustments	**124.1**	**—**
CET1 capital: regulatory adjustments		
Additional value adjustments	—	—
Total regulatory adjustments to CET1	**—**	**—**
CET1 capital	**124.1**	**—**
AT1 capital	**—**	**—**
Tier 1 capital	**124.1**	**—**
T2 capital: Instruments and provisions	**—**	**—**
Total regulatory adjustments to T2 capital		
T2 capital	**—**	**—**
Total capital	**124.1**	**—**
Total risk weighted assets	**174.0**	**—**
Capital ratios and buffers		
CET1 (as a percentage of risk exposure amount)	71.3%	—
T1 (as a percentage of risk exposure amount)	71.3%	—
Total capital (as a percentage of risk exposure amount)	**71.3%**	**—**
Amounts below the thresholds for deduction (before risk weighting)		
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	(2.2)	—

Transitional Own Funds disclosure for the significant subsidiary PL

Equity instruments, reserves and regulatory adjustments (£m)	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
CET1 capital: Instruments and reserves		
Capital instruments and the related share premium accounts	151.3	—
of which: ordinary shares	151.3	—
Retained earnings	4.3	—
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	—	—
CET1 capital before regulatory adjustments	**155.7**	**—**
CET1 capital: regulatory adjustments		
Additional value adjustments	(8.4)	—
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	(112.4)	—
Deferred tax assets arising from temporary differences	(0.5)	—
Losses for the current financial year	(1.8)	—
Total regulatory adjustments to CET1	**(123.1)**	**—**
CET1 capital	**32.6**	**—**
AT1 capital	**—**	**—**
Tier 1 capital	**32.6**	**—**
T2 capital: Instruments and provisions		
Total regulatory adjustments to T2 capital	**—**	**—**
T2 capital	**—**	**—**
Total capital	**32.6**	**—**
Total risk weighted assets	**40.2**	—
Capital ratios and buffers		
CET1 (as a percentage of risk exposure amount)	—	—
T1 (as a percentage of risk exposure amount)	—	—
Total capital (as a percentage of risk exposure amount)	**—**	**—**
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(amount below 10% threshold and net of eligible short positions)	229.5	—
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	1.2	—

Capital Requirements for the significant subsidiary PSL

Type of risk (£m)	Risk exposure amount		Capital requirements	
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
Credit risk SA*	53.5	40.1	4.3	3.2
Counterparty credit risk SA*	1.4	—	0.1	—
Settlement risk	9.6	7.9	0.8	0.6
Market risk SA*	9.0	6.3	0.7	0.5
of which: Foreign exchange position risk	9.0	6.3	0.7	0.5
Operational risk	100.1	95.9	8.0	7.7
of which: Standardised approach	200.3	95.9	16.0	7.7
Credit valuation adjustment - Standardised method	0.4	0.7	—	0.1
Total	**174.0**	**150.9**	**13.9**	**12.1**
Total capital			**124.1**	**123.6**
Surplus capital			110.2	111.5

*SA: Standardised approach

Capital Requirements for the significant subsidiary PL

Type of risk (£m)	Risk exposure amount		Capital requirements	
	31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
Credit risk SA*	32.2	20.7	2.6	1.7
Counterparty credit risk SA*	—	—	—	—
Settlement risk	—	—	—	—
Market risk SA*	2.0	1.4	0.2	0.1
of which: Foreign exchange position risk	2.0	1.4	0.2	0.1
Operational risk	5.9	6.6	0.5	0.5
of which: Standardised approach	11.9	6.6	1.0	0.5
Credit valuation adjustment - Standardised method	—	—	—	—
Total	**40.2**	**28.7**	**3.2**	**2.3**
Total capital			**32.6**	**34.7**
Surplus capital			29.4	32.4

*SA: Standardised approach

Appendix 4 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		
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 Risk Management Objectives and Policy	20
435 (1) (a)	Strategies and processes to manage those risks	Section 4 Risk Management Objectives and Policy	20
435 (1) (b)	Structure and organisation of the risk management function	Section 4.1 Risk Governance	20
435 (1) (c)	Scope and nature of risk reporting and measurement systems	Section 4 Risk Management Objectives and Policy	20
435 (1) (d)	Policies for hedging and mitigating risk	Section 4 Risk Management Objectives and Policy	20
435 (1) (e)	Approved declaration on the adequacy of risk management arrangements	Section 4 Risk Management Objectives and Policy	20
435 (1) (f)	Approved risk statement describing the overall risk profile associated with business strategy	Section 4 Risk Management Objectives and Policy	20
435 (2) (a)	Number of directorships held by directors	Section 4.1.1 Board of Directors	20

435 (2) (b)	Recruitment policy of Board members, their experience and expertise	Section 4.1.1 Board of Directors	20
435 (2) (c)	Policy on diversity of Board membership and results against targets	Section 4.1.1 Board of Directors	20
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year	Section 4.1.2 Risk committees	21
435 (2) (e)	Description of information flow on risk to Board	Section 4.1.2 Risk committees	21
Scope of application			
436 (a)	The name of the institution to which the requirements of this Regulation apply	Section 1 Scope of Application	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 Scope of Application	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 Own Funds	14
437 (1) (a)	Full reconciliation of Common Equity Tier 1 (CET1) items	Table 2: Reconciliation of regulatory Own Funds	14
437 (1) (b)	Description of the main features of the CET1 and Additional Tier 1 and Tier 2 instruments	Table 3: Composition of regulatory Own Funds	15
437 (1) (c)	Full terms and conditions of all CET1, Additional Tier 1 and Tier 2 instruments	Table 3: Composition of regulatory Own Funds	15
437 (1) (d) (i) 437 (1) (d) (ii) 437 (1) (d) (iii)	Each prudent filter applied Each deduction made Items not deducted	Table 2: Reconciliation of regulatory Own Funds	14
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	BNYM follows the implementation standards	N/A
Capital requirements			
438 (a)	Summary of institution’s approach to assessing adequacy of capital levels	Section 3 Capital Requirements	18
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 7: Standardised credit exposure by exposure class	26
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	Table 6: Capital requirements and Section 10: Market Risk	18 & 41
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 6: Capital requirements and Section 12: Operational Risk	18 & 43
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach	Table 6: Capital requirements	18
Exposure to counterparty credit risk (CCR)			
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures	Section 8 Counterparty Credit Risk	36
439 (b)	Discussion of process to secure collateral and establishing reserves	Section 8 Counterparty Credit Risk	36
439 (c)	Discussion of management of wrong-way exposures	Section 8 Counterparty Credit Risk	36
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 the BNYM Corp level	N/A
439 (e)	Derivation of net derivative credit exposure	Section 8 Counterparty Credit Risk	36
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Section 8 Counterparty Credit Risk	36
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	N/A - BNYM 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 - BNYM 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 5.5 Analysis of Past Due and Impaired Exposures	28
442 (b)	Approaches for calculating credit risk adjustments	Section 5.5 Analysis of Past Due and Impaired Exposures	28
442 (c)	Disclosure of pre-CRM EAD by exposure class	Table 7: Standardised credit exposure by exposure class	26
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class	Table 8: Standardised credit exposure by country	27
442 (e)	Disclosures of pre-CRM EAD by industry and exposure class	Table 9: Standardised post mitigated credit exposures by counterparty type	27
442 (f)	Disclosures of pre-CRM EAD by residual maturity and exposure class	Table 10: Standardised credit exposure by residual maturity	28

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 11: Credit quality of exposures by counterparty type	28
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography	Table 13: Credit quality of exposures by geographical breakdown	30
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 5.5 Analysis of Past Due and Impaired Exposures	28
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately	Section 5.5 Analysis of Past Due and Impaired Exposures	28
Unencumbered assets			
443	Disclosures on unencumbered assets	Section 9 Asset Encumbrance	39
Use of ECAIs			
444 (a)	Names of the ECAIs used in the calculation of Standardised Approach RWAs, and reasons for any changes	Section 7 External Credit Assessment Institutions (ECAIs)	33
444 (b)	Exposure classes associated with each ECAI	Section 7 Table 15: Credit quality steps and risk weights	33
444 (c)	Explanation of the process for translating external ratings into credit quality steps	Section 7 Table 16: Credit quality steps and risk weights	33
444 (d)	Mapping of external rating to credit quality steps	Section 7 External Credit Assessment Institutions (ECAIs)	33
444 (e)	Exposure value pre and post-credit risk mitigation, by credit quality step	Section 7 Table 15-18: External Credit Assessment Institutions (ECAIs)	33
Exposure to market risk			
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	Section 10 Market Risk	41
Operational risk			
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered	Section 12 Operational Risk	43
Exposure in equities not included in the trading book			
447 (a)	Differentiation of exposures based on objectives	N/A	N/A
447 (b)	Recorded and fair value, and actual prices of exchange traded equity where it differs from fair value	N/A	N/A
447 (c)	Types, nature and amounts of the relevant classes of equity exposures	N/A	N/A
447 (d)	Realised cumulative gains and losses on sales over the period	N/A	N/A
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital	N/A	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 11: The Bank 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	N/A
Remuneration disclosures			
450	Remuneration disclosure regarding remuneration policy and practices	Section 14 Remuneration Disclosure	48
450 (1) (a)	Information concerning the decision-making process used for determining the remuneration policy	Section 14.1 Governance	48
450 (1) (b)	Information on link between pay and performance	Section 14.2 Aligning Pay with Performance	49
450 (1) (c)	Important design characteristics of the remuneration system	Section 14 Remuneration Disclosure	48
450 (1) (d)	Ratios between fixed and variable remuneration	Section 14.4 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 14.6 Deferral Policy and Vesting Criteria	50
450 (1) (f)	Main parameters and rationale for any variable component scheme and any other non-cash benefits	Section 14.7 Variable Remuneration of Control Function Staff	50
450 (1) (g)	Aggregate quantitative information on remuneration by business area	Section 14.8 Table 30: Aggregate Remuneration Expenditure by Business	51
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	Section 14.8 Table 31: Aggregate Remuneration Expenditure by Remuneration Type	51
450 (1) (i)	Number of individuals being remunerated £1 million or more per financial year	Section 14.8	51
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 13 Leverage Ratio	45

451 (1) (b)	Breakdown of total exposure measure	Section 13 Table 28: Leverage ratio common disclosure	46
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 13 Leverage Ratio	45
451 (2)	EBA to publish implementation standards for points above	BNYM 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 ISDA Master Agreements and Netting	31
453 (b)	How collateral valuation is managed	Section 6.2 Collateral Valuation and Management	31
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 - BNYM'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 Risk Concentration	32
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	Section 6.4 Table 14: Credit risk mitigation techniques - overview	32
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	Section 2 Own Funds	14
Article 3	Description of the main features of CET1, AT1 and Tier 2 instruments issued (Annex II and III)	Table 5: Common tier 1 and additional tier 1 instruments and tier 2 instruments	16
Article 4	Disclosure of nature and amounts of specific items on own funds (Annex IV and V)	Table 4: Transitional own funds	15
Article 5	Disclosure of nature and amounts of specific items on own funds during transitional period (Annex VI and VII)	Table 4: Transitional own funds	15
Article 6	Entry into force from 31 March 2014	N/A	N/A

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