The Bank of New York Mellon (Luxembourg) S.A.

PILLAR 3 DISCLOSURE
DECEMBER 31, 2015

BNY MELLON | Invested

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1 Introduction

1.1 Disclosure policy

This document comprises the BNY Mellon Luxembourg S.A. (BNYM LUX) Pillar 3 disclosures on capital and risk management at 31 December 2015. 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.

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

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

1.2 The Basel III Framework

Basel III is the international banking accord intended to strengthen the measurement and monitoring of financial institutions' capital. The Basel III framework was implemented in the European Union through 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 and capital resources requirements.
- **Pillar 2 – Supervisory review process:** requires firms and supervisors to undertake an internal capital adequacy assessment process to determine whether the financial institution needs to hold additional capital against risks not adequately covered in Pillar 1 and to take action accordingly.
- **Pillar 3 – Market discipline**: complements the other two pillars and effects market discipline through public disclosure of its risk management policies, approach to capital management, its capital resources and an analysis of its credit risk exposures.

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

1.3 Purpose of Pillar 3

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

- Credit risk
- Counterparty credit risk
- Market risk
- Credit valuation adjustment
- Securitisations
- Operational risk

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

BNYM LUX includes both quantitative and qualitative disclosures to show the relevant information and describe its approach to capital management, its capital resources and an analysis of its credit risk exposures. The disclosures also include, where appropriate, comparative figures for the prior year and an analysis of the more significant movements to provide greater insight into its approach to risk management.

1.4 Non-material, Proprietary or Confidential Information

In accordance with CRD IV, the Board of BNYM LUX 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 BNYM LUX 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 its 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 of BNYM LUX 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.

BNYM LUX 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 being available 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. BNYM LUX 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 will be published on The Bank of New York Mellon group website (www.bnymellon.com), in

the section Investor relations, Financial reports, other regulatory filings on the Company's website.

1.6 Board Approval

These disclosures were approved for publication by BNYM LUX's Board of Directors on 11th May 2016. The Board has verified that these disclosures are consistent with the formal policies adopted regarding production and validation and are satisfied with the adequacy and effectiveness of the risk management arrangements.

2 Key Metrics

The following risk metric reflect BNYM LUX's risk profile.

Metrics	2015		2014	
	EURm	**Ratio**	**EURm**	**Ratio**
Common equity tier 1 capital	77,829	32.6%	70,452	24.95%
Total tier 1 capital	77,829	32.6%	70,452	24.95%
Total capital	77,829	32.6%	70,452	24.95%
Risk weighted assets	238,391	-	282,424	-
Leverage ratio	-	1.77%	-	1.67%

3 Scope of Application

BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets, As of December 31, 2015, BNY Mellon had $28.9 trillion in assets under custody and/or administration, and $1.6 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

3.1 Company Description

BNYM LUX is a company limited by shares which is incorporated in Luxembourg. At 31st December 2015 it was a wholly-owned subsidiary of BNY International Financing Corporation (BNYIFC), a holding company with investments in banking and non-banking entities. BNYIFC being a wholly-owned US-regulated subsidiary of The Bank of New York Mellon, the main banking entity of BNY Mellon. On 29th February 2016 BNYIFC transferred its shares to The Bank of New York Mellon which became the sole shareholder from that date.

The corporate structure of BNYM LUX is illustrated in Figure 1.

Figure 1.1: BNYM LUX corporate structure as at 31st December 2015

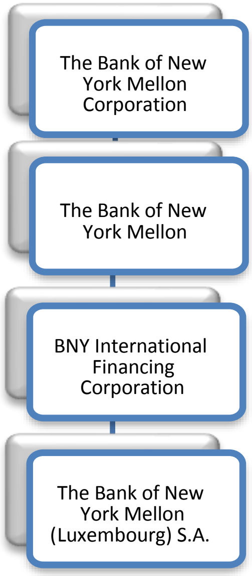
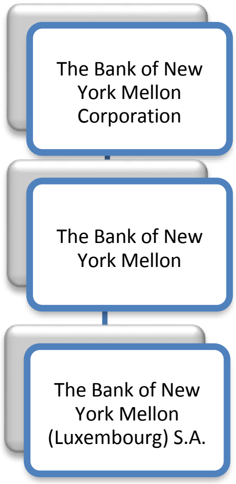


Figure 1.2: BNYM LUX corporate structure following change in ownership 29th February 2016



3.2 Core Business Lines

BNYM LUX provides custody, depository, fund accounting and transfer agency services to Investment Funds in Luxembourg and Corporate Trust Services to corporate clients in Luxembourg and Milan.

3.2.1 Custody Services

Custody services are services provided to customers (or their advisors) to assist with holding and keeping track of their securities. Specifically, BNYM LUX's custody services include the following functions:

- Safekeeping instruments either in physical form or within a securities settlement system or central securities depository.
- Maintaining records of the securities being held and the securities being bought and sold.
- Presenting securities either electronically or on occasion physically to, and receiving securities from, a clearing and settlement platform.
- Collecting income earned on the securities such as dividends and interest.
- Delivering issuer communications to the investor.
- Preparing reports for the investor, such as settlement reports, income collection reports, etc.

3.2.2 Depository Services

Depository services are provided to Undertakings for Collective Investments in Transferrable Securities (UCITS) in accordance with the law governing AIFMD, UCITS and FCP structures.

3.2.3 Fund Accounting

Fund accounting provides daily fund accounting services to Luxembourg investment funds. Net Asset Values (NAVs) are calculated at each valuation point, usually daily, and financial statements are prepared usually on a semi-annual and annual basis for publication to the fund's investors.

3.2.4. Transfer Agency

Transfer agency is contracted by customers, primarily investment funds to maintain records of investors, account balances and transactions, to cancel and issue shares, perform cash processing, provide call centre services and to process investor mailings.

3.3 Legal Entities

BNYM LUX’s services are provided through its Luxembourg Head Office and its Branch in Milan, Italy.

4 Own Funds

This section provides an overview of the regulatory balance sheet and composition of BNYM LUX’s regulatory capital. There are a number of differences between the balance sheet prepared in accordance with Luxembourg GAAP and the Pillar 3 disclosures that are published in accordance with prudential requirements.

Table 1: Reconciliation of Own Funds

This table shows a reconciliation of BNYM LUX’s balance sheet prepared in accordance with Luxembourg GAAP and the regulatory balance sheet prepared under the prudential requirements. The regulatory balance sheet forms the basis for the calculation of regulatory capital requirements.

31 December 2015 (EUR’000)	Published Audited Financial Statements	Adjustments due Transitional Provisions	Regulatory Prudential Adjustments	Regulatory Own Funds
Common Equity Tier 1				
Capital Instruments	74,831	0	0	74,831
Retain Earnings	-14,941	0	21,366	6,425
Other compressive income	0	0	0	0
Reserves	1,147	0	-1,147	0
Minority Interest	0	0	0	0
Other adjustments and assets deducted	0	0	-3,427	-3,427
Total CET1	**61,037**	**0**	**-4,213**	**77,829**
Additional Tier 1 Capital				
Capital Instruments	0	0	0	0
Retain Earnings	0	0	0	0
Other compressive income	0	0	0	0
Reserves	0	0	0	0
Minority Interest	0	0	0	0
Other adjustments and assets deducted	0	0	0	0
Total AT1	0	0	0	0
Total Tier 1 (CET1 + AT1)	**61,037**	**0**	**-4,213**	**77,829**
Tier 2 Capital				
Capital Instruments	0	0	0	0
Retain Earnings	0	0	0	0
Other compressive income	0	0	0	0
Reserves	0	0	0	0
Minority Interest	0	0	0	0
Other adjustments and assets deducted	0	0	0	0
Total Tier 2 Capital	0	0	0	0
Total Own Funds	**61,037**	**0**	**-4,213**	**77,829**

BNYM LUX's regulatory capital is defined by CRD IV and includes:

Common equity tier 1 capital which is the highest quality form of regulatory capital under Basel III comprising issued share capital and retained earnings.

Tier 2 capital which is a component of regulatory capital under Basel III, mainly comprising qualifying subordinated loan capital, and eligible collective impairment allowances.

Table 2: Composition of regulatory capital

This table shows the composition of BNYM LUX's regulatory capital including the required prudential adjustments.

Own Funds	31-Dec-15	31-Dec-14
Common Equity Tier 1 (CET1)		
Capital Instruments	74,831	74,831
Retain Earnings	6,425	-952
Other compressive income	0	0
Reserves and others	0	0
CET1 Adjustments	-3,427	-3,427
Total CET1	77,829	70,452
Additional Tier 1 Capital (AT1)		
Capital Instruments	0	0
Others	0	0
AT1 Adjustments	0	0
Total AT1	0	0
Total Tier 1 (CET1 + AT1)	77,829	70,452
Tier 2 Capital (T2)		
Capital Instruments and subordinated loans	0	0
Others	0	0
T2 Adjustments	0	0
Total Tier 2 Capital	0	0
Total Own Funds	77,829	70,452

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

Transitional own funds disclosure at 31 December 2015

Equity Instruments, Reserves and Regulatory Adjustments	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
Common Equity Tier 1 capital: Instruments and Reserves		
Capital instruments and the related share premium accounts	74,831	
of which: ordinary shares	74,831	
Retained earnings	6,425	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**81,256**	**0**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Additional value adjustments	-2,426	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met)	-1,001	
Total regulatory adjustments to Common equity Tier 1 (CET1)	**-3,427**	
Common Equity Tier 1 (CET1) capital	**77,829**	
Additional Tier 1 (AT1) capital: Instruments		
Capital instruments and the related share premium accounts	0	
Additional Tier 1 (AT1) capital before regulatory adjustments	**0**	
Additional Tier 1 (ATI) capital: regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	
Additional Tier 1 (AT1) capital	**0**	
Tier 1 capital (T1 = CET1 + AT1)	**77,829**	
Tier 2 (T2) capital: Instruments and provisions		
Capital instruments and the related share premium accounts	**0**	
Tier 2 (T2) capital before regulatory adjustments	**0**	
Tier 2 (T2) capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 (T2) capital	**0**	
Tier 2 (T2) capital	**0**	
Total capital (TC = T1 + T2)	**77,829**	
Total risk weighted assets	**238,391**	
Capital ratios and buffers		
Common Equity Tier 1(as a percentage of risk exposure amount)	32.6%	
Tier 1 (as a percentage of risk exposure amount)	32.6%	
Total capital (as a percentage of risk exposure amount)	32.6%	
Amounts below the thresholds for deduction (before risk weighting)		

Applicable caps on the inclusion of provisions in Tier 2	
Capital Instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	

Table 3: Common tier 1 and additional tier 1 instruments and tier 2 instruments

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

Table 3 - Own Funds, Full Reconciliation

In EUR

Capital instruments main features (1) at 31 December 2015	Ordinary shares
Issuer	The Bank of New York Mellon (Luxembourg) S.A.
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not Applicable
Governing law(s) of the instrument	G-D of Luxembourg
Regulatory treatment	
Transitional CRR rules	Not Applicable
Post-transitional CRR rules	Common Equity Tier 1
Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo
Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
Amount recognised in regulatory capital	75 million
Nominal amount of instrument	Shares issued without par value
Issue price	75 million
Accounting classification	Subscribed capital
Original date of issuance	On incorporation and June 14, 2006
Perpetual or dated	Perpetual
Original maturity date	No maturity date
Issuer call subject to prior supervisory approval	Yes
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretionary
Existence of step up or other incentive to redeem	No
Convertible or non-convertible	Non-convertible
Write-down features	No

Note: (1) this table is based on Annex II of ITS Regulation (EU) No. 1423/2013, not applicable lines were omitted.

5 Capital Requirements

BNYM LUX's capital plan aims to ensure that it holds an appropriate amount of capital to support its business model, allowing for growth and orderly contraction over the life cycle of the business, given a range of plausible but severe stress scenarios. Potential capital shortfalls are identified over a 5 year period and capital plans adjusted accordingly. The plan is reflective of BNYM LUX's risk appetite, which details a commitment to a strong balance sheet characterised by strong liquidity, superior asset quality and a capital structure which supports the risk taking activities and has the ability to absorb losses.

The plan is developed with input from Finance, Risk, Treasury and the business lines.

Incorporating the projected earnings based on its business plan, BNYM LUX generates a 5 year forecast which forms the base foundation for financial modelling and stress testing used as part of the ICAAP process.

The capital plan effectively incorporates a view of BNYM LUX's current business model, the risks associated with that model, and an assessment of how those risks contribute to the amount of capital required, as per internal and external regulatory criteria. The capital plan is subject to Executive Committee and Board approval and the performance metrics reviewed at the Asset and Liability Committee.

5.1 Calculating capital requirements

CRD IV allows for different approaches for calculating capital requirements. BNYM LUX 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 4: Capital requirements overview

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

Type of Risk	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Credit risk SA*	139,063	196,185	11,125	15,695
Counterparty Credit Risk SA*	7,802	10,087	624	807
Securitisation Risk in banking book SA*	0	0	0	0
Settlement risk	0	0	0	0
Market risk SA*	14,252	3,038	1,140	243
of which: Foreign Exchange Position Risk	14,252	3,038	1,140	243
Operational risk	68,408	61,652	5,473	4,932
of which: Basic Indicator Approach	0	61,652	0	4,932
of which: Standardised Approach	68,408	0	5,473	0
of which: Additional Amount due to fixed overheads	0	0	0	0
Credit Valuation Adjustment - Standardised method	8,866	11,462	709	917
Related to Large Exposure in Trading Book	0	0	0	0
Other risk	0	0	0	0
Total	**238,391**	**282,424**	**19,071**	**22,594**
Total Capital			**77,829**	**70,452**
Surplus Capital			**58,758**	**47,859**

* SA = Standardised Approach

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

6 Risk Management Objectives and Policies

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

Whilst BNY Mellon assumes less balance sheet risk than most financial services companies, it does assume a significant amount of operational risk as a result of its business model. As a consequence, BNY Mellon has developed an enterprise risk management program 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.
- Monitoring and reporting of key risk metrics to senior management and the Board takes place.
- There is a capital planning process which incorporates both economic capital modelling and a stress testing programme.

6.1 Risk Objectives

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

- The Board recognises that defining a risk appetite must consider the views of a number of different stakeholders while accounting for business strategy and risk profile.
- The Board sees embedding the risk appetite into the business strategy as essential.
- The Board recognises that it cannot mitigate all risks. The risk framework includes standard risk management self-assessment tools that take into account loss history and stress testing to measure and monitor whether or not risk controls in place continue to remain effective.
- The Board will seek input from its own and group wide risk committees on a regular basis in the Board's reassessment of appetite and sources of major risks.

The Board adopts a prudent appetite to all elements of risk to which BNYM LUX is exposed.

6.2 Risk Governance

Risk oversight and management is structured to cover regional level, legal entity and lines of business (LOB). A formal governance hierarchy is in place to ensure that all areas of the business can effectively escalate issues through the regional and global structure.

6.2.1 Board of Directors

The main duty and responsibility of the Board is to define the strategy of BNYM LUX and to supervise the management of BNYM LUX. Whilst acting autonomously and in accordance with its legal and regulatory requirements, the Board aligns BNYM LUX's strategy to that of its primary shareholder. The Board has overall responsibility for the establishment and maintenance of BNYM LUX's risk appetite framework and for the approval of the risk appetite statement, which is developed in collaboration with the General Manager (GM), Chief Risk Officer (CRO) and Luxembourg Controller. The Board must ensure that strategic and business plans are consistent with the approved risk appetite. The Board also has responsibility for

- Holding the General Manager accountable for the integrity of the risk appetite framework.
- Seeking independent assessment, if deemed necessary of the integrity and robustness of the risk appetite framework by reference to stakeholder expectations.
- Understanding how strategic decisions alter the risk profile, and whether the strategic change would cause the risk appetite to be exceeded.

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

Name	Position	Number of directorships held	Knowledge, skills and expertise
J Wheatley	Director (Chairman)	10	EMEA Head of Client Service Delivery
D Claus	Director	4	Authorised Manager of BNYM LUX and Luxembourg Country Executive
D Fletcher	Director	3	International Head of Corporate Trust
M Mannion	Director	5	Head of EMEA AIS Relationship Management
J Pamplin	Director	1	Managing Director AIS Client Services

All nominations to the Board are made against merit and on the basis of director's qualifications and in accordance with the needs of the Board at the time of the nomination. The main duties and responsibility of the Board are to define the strategy of BNYM LUX and to supervise the management of BNYM LUX. Whilst acting autonomously and in accordance with its legal and regulatory requirements, the Board aligns BNYM LUX's strategy to that of its primary shareholder. The Board has overall responsibility for the establishment and maintenance of BNYM LUX's risk appetite framework and for the approval of the risk appetite statement, which is developed in collaboration with the General Manager (GM), Chief Risk Officer (CRO) and the Luxembourg Controller. The Board must ensure that strategic and business plans are consistent with the approved risk appetite. The main duties and responsibilities of the Board of Directors of BNYM LUX include, but are not limited to:

- conducting and developing the activities of BNYM LUX in accordance with its social object as described in its articles of incorporation and in accordance with applicable laws;
- upholding or rejecting new business proposals brought to its attention by the General management as a matter of escalation / formerly approving the take on of new business at regular board meetings;
- ensuring that BNYM LUX has an effective organisation and sufficient human / technology resources;
- ensuring the sound administration of assets and the proper execution of operations;
- ensuring the complete and accurate recording of transactions and the production of reliable and timely information;
- promoting a positive attitude towards controls within BNYM LUX
- implementing an effective system of internal controls and an adequate compliance programme:
- supervising the activities of the General Management to whom the Board has mandated the day-to-day management of BNYM LUX. In particular, the Board have the power to revoke any member of the General Management and / or the Executive Committee;

- approving any outsourcing arrangements as recommended by the General Management or dictated by group strategy; and
- owning and approval of BNYM LUX's recovery and resolution plans.

6.2.2 The General Management and Executive Committee of BNYM LUX

The General Management of BNYM LUX as the main delegate of the Board is responsible for:

- conducting and developing the activities of BNYM LUX in accordance with its social objective as described in its articles of incorporation and in accordance with applicable laws;
- making appropriate determinations with regards to accepting or rejecting new business and ensuring escalation to the Board of any issues which cannot be resolved at this level;
- ensuring that BNYM LUX has an effective organisation and sufficient human / technology resources;
- ensuring the sound administration of assets and the proper execution of operations;
- ensuring the complete and accurate recording of transactions and the production of reliable and timely information;
- promoting a positive attitude towards controls within BNYM LUX;
- implementing an effective system of internal controls and an adequate compliance programme;
- reporting at regular intervals to the Board on the status of affairs, the status of internal controls and compliance. The General Management must, in particular, report promptly to the Board any material breaches of laws, regulation, code of conduct and standards of good practice;
- ensuring adequate oversight and control over any outsourcing arrangements; and approving BNYM LUX's recovery and resolution plans

The Executive Committee (ExCo) of BNYM LUX

- The General Management may decide, subject to Board approval, to appoint additional officers with various expertise or skills to join the ExCo in order to assist the General Management in carrying out their responsibilities. The main role of the members of the ExCo will be to assist in strategic and administrative decisions of BNYM LUX.
- Despite the fact that particular powers may be internally delegated to the ExCo by the General management, the General Management ultimately remain accountable, as the body mandated by the Board for the day-to-day operations of BNYM LUX.
- The ExCo is also responsible for the approval of BNYM LUX's recovery and resolution plans

6.2.3 Regional Risk Governance

A regional level risk governance structure is in place to oversee all business and legal entities' risk. Various BNYM LUX risk committees and risk management processes feed into the structure below.

Oversight and escalation is provided through the following key committees:

EMEA Executive Committee (EEC) is the senior regional management committee. The committee's main role is to drive actions relating to the region's revenue generation, strategy, governance and control objectives. It is also a platform for regional senior managers to agree common positions on issues relevant to all businesses operating within EMEA.

The EEC is a challenge and advisory committee, though it will not typically have decision-making authority over individual businesses and legal entities. The chair can escalate concerns raised at the EEC to the Corporate Executive Committee of which he is a member.

However it should be noted that the primary responsibility for the oversight of individual businesses / entities rests with the senior management of those businesses.

EMEA Senior Risk Management Committee (ESRMC) exercises responsibility and provides

independent oversight for policies, processes and controls relating to all aspects of risk and compliance for the EMEA region. This includes the following EMEA subcommittees:

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

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

6.2.4 Business Unit Risk Governance

The oversight of risk management within business units at a regional level is governed via three risk management committees, namely:

The EMEA Asset Servicing and Corporate Trust Business Acceptance Committees are responsible for channeling new / renewal business into lines of business and subsequently legal entities, including BNYM LUX, approving all new clients prior to commencing a relationship with them, and approving new business arrangements with existing clients. Risk is assessed and reviewed as part of the approval process.

The EMEA Asset Servicing Business Risk Committee is responsible for ensuring that the risk profile of EMEA Asset Servicing is well understood and effectively managed. This is achieved by carrying out the review of current and emerging key risk and control issues and related initiatives, escalation of material risks and issues to the Head of BNY Mellon Asset Servicing and other regional committees and boards as appropriate, approval of new or materially modified products, review of potential off-boarding of non-systemically significant products and review of significant regulatory requirements.

6.2.5 Legal Entity Risk Management

The oversight of risk management within BNYM LUX is governed by the Luxembourg Risk Management Committee.

6.3 Risk Management Framework

BNYM LUX's risk management framework helps ensure that all material risks in each business line are defined, understood, and effectively managed using well-designed policies and controls. Suitable policies and procedures have been adopted by BNYM LUX in order to ensure an appropriate level of risk management is directed at the relevant elements of the business.

Risk management complies with corporate policies on risk appetite and managing risk culture centred on a "Three Lines of Defence" model advocated by BNY Mellon. Within the EMEA region, the EMEA Chief Risk Officer oversees the management of risk and is supported in this role by Senior Risk Managers operating at business line and/or functional level.

BNYM LUX's risk management framework is designed to:

- Ensure that risks are identified, managed, mitigated, monitored and reported.
- Define and communicate the types and amount of risks to take.
- Ensure that risk-taking activities are consistent with the risk appetite.
- Monitor emerging risks and ensure they are weighed against the risk appetite.
- Promote a strong risk management culture that considers risk-adjusted performance.

In line with global policy, BNYM LUX has adopted the ‘Three Lines of Defence’ (3LOD) model in deploying its risk management framework (figure 2 below). The first line of defence (1LOD) is the business or, in some cases, business partner level. The business takes and owns the risk associated with activities, and it manages the risks and the related control processes and procedures on an operational basis. The risk management and compliance functions are the second line of defence (2LOD) and own the enterprise wide risk management framework and provide independent oversight of the 1LOD, ensuring that policies are adhered to and challenged. This also includes corporate security, business continuity, financial management and analysis within Finance. The third line of defence (3LOD) is Internal Audit, which independently provides the BNYM LUX Board and senior management with the assurance that the governance structures, risk management and internal controls in place are effective.

Figure 2: Managing Three Lines of Defence

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

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

BNYM LUX's Board adopts a prudent appetite to all elements of risk to which it and its subsidiaries are exposed. Business activities will be managed and controlled in a manner consistent with the Board's stated tolerances using defined quantitative and qualitative measurements.

The Board has sought to establish a clear set of tolerances for its business and has articulated its appetite through a series of statements and metrics.

The risk management tools include the reporting and monitoring of top risks, risk and control self-assessment, key risk indicators, reporting of operational risk events, information on credit risk, market risk, and liquidity risk profiles. Stress testing is used to analyse a range of appropriate scenarios of varying nature, severity and duration relevant to the BNYM LUX risk profile. A range of forward-looking stress test scenarios are considered and undertaken on a quarterly basis.

BNYM LUX's risk profile is recorded through a number of risk assessment tools, further explained below.

6.4 Risk Appetite

BNY Mellon defines risk appetite as the maximum level of risk it is normally willing to accept while pursuing the interests of major stakeholders, including clients, shareholders, employees and regulators i.e. it considers the balance between risk and reward aligning the strategic goals and the overall risk. At entity level it is linked to the strategic direction set by senior management and is approved by the BNYM LUX Board.

BNYM LUX's Risk Appetite Statement is owned and approved by the Board. It describes the level of risk that the Board is willing to accept in its strategy and business activities, given its business objectives and obligations. The statement also applies to its Milan Branch and is reviewed at least annually or whenever the BNYM LUX's risk profile changes.

BNYM LUX uses a variety of metrics to measure and monitor its risk taking activities relative to its risk appetite. Capital represents one of the core elements of the risk appetite. Articulating risk appetite through its metrics aids important decision-making by determining actions such as pursuing new products and enterprises, exiting businesses, and aligning resources to maximise potential gains given acceptable levels of risk.

Thresholds are established to measure the performance of the business against its risk appetite. The metrics are actively monitored, managed and mitigated through the monthly Luxembourg Risk Management Committee (RMC), to ensure that the performance of business activities remains within risk tolerance levels. Where residual risks remain (which are within BNYM LUX's risk appetite), BNYM LUX will allocate capital to provide against potential financial loss.

6.5 Risk and Control Self-Assessment

Risk and Control Self-Assessment (RCSA) is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls. RCSA control gaps and action plans form part of the standard risk management report to the RMC which ensures that, although the RCSA process is owned by the line of business in conjunction with the business risk managers, the RMC has oversight of risk to the business and of the key exception items relating to BNYM LUX on an on-going basis.

6.6 Key Risk Indicators

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

6.7 Risk Impact and Priority

Risks are prioritised by key representatives from the business lines according to the assessment of the inherent risk, quality of controls in place to mitigate risk and reduce the likelihood of each residual risk. Risks are prioritised as 'High,' 'Moderate to High,' 'Moderate,' 'Moderate to Low' and 'Low' with direction anticipated. The top risks assessed form part of the Luxembourg Risk Management Committee and Board meetings reporting. High priority risks are also consolidated into the EMEA Regional top risk reporting process for reporting to the EMEA Risk Workgroups.

6.8 Operational Risk Events

All operational losses and fortuitous gains exceeding $10k are recorded in the risk management platform, completeness being verified by reconciliation to the general ledger. Risk events are categorised and reported to the RMC monthly.

6.9 Credit Risk

All counterparties (clients and banks) are assessed and allocated a borrower rating in accordance with the BNYM's rating system. Monitoring and control is conducted via a number of real-time systems to ensure that approved exposure levels are not exceeded, or are pre-approved by a suitable credit officer in the light of individual circumstances. Post-event monitoring is also conducted by both Client Services and the Credit Function.

6.10 Market Risk

BNY Mellon has established an Enterprise-wide Market Risk Management Policy and a Tier 2 Enterprise wide Market Risk Limits Policy, which were adopted by the BNYM LUX in October 2014. Market Risk Management has agreed market risk mandates and limits with respect to International Treasury activity as set out in the Tier 2 Enterprise-wide Market Risk Limits Policy. These limits are monitored by EMEA Market Risk which also ensures that BNYM LUX operates in accordance with the BNYM LUX risk appetite, and that BNYM LUX operates within the agreed mandate. EMEA Market Risk reports these limits to senior management on a regular basis.

6.11 Risk Register

The risk register is being implemented as a living document and will be updated regularly, and at least annually. The Risk Register is a risk management tool used for the assessment and documentation of risks associated with an entity. The risk register is created using risk data extrapolated from business risk and control self-assessments, and consultation with business risk champions, business risk partners and executive management. It is owned by the Chief Risk Officer and provides a high level view of the entity's risk exposure and assists in identifying the top risks for the entity. Detailed risk mitigation plans for top risks are owned and maintained by risk owners and these plans are also made available to the RMC for oversight and challenge.

6.12 High Level Assessment

BNY Mellon High Level Assessment (HLA) of the components of risk is performed quarterly and incorporates commentary on current risk and loss experience, emerging risks, business process changes, new product development, risk management initiatives and key risk indicators. HLA coverage includes operational, credit, market, strategic and reputation risk. The HLA incorporates ratings of inherent risk, quality of controls, residual risk and direction of risk. The top risks identified for BNYM LUX contribute to this quarterly assessment.

6.13 Top Risks

Top risks are identified according to the assessment of the inherent risk, quality of controls in place to mitigate risk and likelihood to identify residual risk. Top risks are rated as 'High,' 'Moderate to High,' 'Moderate,' 'Moderate to Low' and 'Low' with direction anticipated. The top risks assessed form part of the reporting to the Luxembourg Risk Management Committee and BNYM LUX Board meetings. Top risks are also consolidated into the EMEA Regional top risk reporting process for reporting to the EMEA level Risk Committees. BNYM LUX's risk profile is recorded through a number of risk assessment tools and the risk management team prepares and updates the top risk assessment which is reviewed and approved by BNYM LUX's RMC monthly and the Board quarterly.

6.14 Stress Testing

Stress testing is undertaken at BNYM LUX to monitor and quantify risk and capital 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 BNYM LUX's risk profile. BNYM LUX's stress testing process conclusion is a statement of the future risk(s) that the business faces, control improvements to mitigate the impact should the risk arise and where appropriate, a recommendation for capital to be held against each risk type.

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by BNYM LUX's RMC and Board.

6.15 Escalation of Risks and Issues

A robust framework exists for monitoring and escalation of issues and risks. If a material risk issue occurs, the EMEA Governance Guide for reporting and escalation of material issues and risks is followed. Business management is required to notify senior management, which includes BNYM LUX Board members, soon after determination. Risk management is responsible for supporting the business lines in achieving the following:

- Identifying and documenting all material risks, assessing the effectiveness of control design, and ensuring that control gaps are closed.
- Developing and implementing standards and policies appropriate for the business that conform to the principles and guidelines established by Risk.
- Elevating, reporting and investigating operating errors, losses and near misses, identifying the root causes and implementing corrective actions.
- Reviewing key indicators for coverage and effectiveness, identifying root causes for red and amber conditions and ensuring implementation of corrective actions.
- Approving the process to accept new business, including 'Request for Proposal' preparation, contract acceptance and compliance, and challenging whether BNYM LUX is being compensated appropriately for the assumption of risk.
- Reviewing the impact of changes in business processes on inherent risks and controls such as reorganisations, new products or processes, system conversions and acquisitions, etc.
- Ensuring that processes, risks, and controls are continually reassessed for appropriateness and completeness.

Management information is used to monitor the performance of the transaction processing and support services including specific risk exposures (e.g. cash and securities reconciliation breaks) and red/amber/green ratings in respect of the health of the operational functions.

6.16 Recovery Planning

In 2015, a Recovery Plan was prepared for submission to the CSSF in accordance with the requirement of BRRD. The Recovery Plan is designed to ensure that the BNYM LUX has credible and executable options to meet the challenges that may arise from potential future financial crises.

7 Credit Risk

7.1 Definition and Identification

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

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

BNYM LUX's credit risk arises from the following business operations:

- Client lending
  - Credit facilities are provided on an uncommitted basis to Investment Funds
  - Unadvised, uncommitted intraday and overnight credit facilities are provided in support of operational activity (trade settlement, cash wire activity, FX trades, etc.)
- Nostros – BNYM LUX utilises a number of banks around the world to maintain accounts and enable it to transfer monies cross-border
- Daylight / intraday overdrafts - limits are set for each client as a percentage of a client's AUC (Assets Under Custody), as follows:
  - Stock purchases under a Custody Clearing Limit (CCLR – maximum 50% of AUC value, being capped at $800m)
  - Daylight Overdraft Limit (DOL) for stock purchases with today's value and cash payments due out today (maximum 15% of AUC value, being capped at $800m)
- Cash Placements - BNYM LUX deposits funds with or purchases certificates of deposits issued by other banks

7.2 Credit Risk Management Framework

At the outset of a new agent bank, trading counterparty or customer relationship, a review is undertaken by the business in partnership with Credit Risk to determine the client's suitability for the products offered and BNYM LUX's risk appetite for the name. Once it is agreed that the relationship can be entered and suitable limits would be available to cover the activity, the client can be mandated and moved through the Business Acceptance Committee process for formal approval by all relevant parties. It is the primary responsibility of the business as the first line of defence alongside the guidance and oversight of Credit Risk as the second line of defence to identify, based on business activity, the type(s) of credit risk that may be incurred and an estimate of the anticipated levels.

7.3 Management of Credit Risk

Credit risk (including metrics, breaches, output) is managed in the following ways:

- Nostros are maintained at the minimum possible level and within the large exposure limits, ensuring smooth operations and adherence to own fund requirements. The banks used are all major well rated banks in their relevant countries
- For clients within the custody portfolio, intra-day limits are provided as a percentage of assets under custody. Most clients have, within their Global Custody Agreement, provided the bank with a contractual right of set off across currency accounts, a custodial lien on the assets held and a right of retention and sale if debts are not repaid
- Certain clients may not be able to give liens on their assets due to either sovereign immunity issues, or an inability to compromise or otherwise encumber their asset pool which may be held ultimately for the benefit of other parties (insurance companies, etc.). However, these tend to be highly rated financial institutions and so the risk is reduced by virtue of their high quality rather than access to a securities portfolio
- A Master Netting Agreement is in place to cover intragroup exposure to BNY Mellon SA/NV
- Placement activity with third party banks is undertaken only after limits have been approved by Credit Risk function and this only occurs after careful consideration of the quality of the bank, large exposure issues and exposure elsewhere within the BNY Mellon group. Relationships with, and limits for, all banks are managed under BNY Mellon and for BNYM LUX are managed as a subset within the overall limit approved by BNY Mellon

It should also be noted that the metrics supporting the management of credit risk are monitored on a monthly basis and reported to senior management. Throughout 2015, no large exposure breaches have been reported for BNYM LUX.

7.4 Monitoring and Reporting

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

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

7.5 Governance

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

- Credit policy for each legal entity describes the outsourcing of credit risk tasks, defines roles and responsibilities and requires reporting to be carried out to each business line and entity that the policy applies to. Any deviation from approved policy requires either senior business or senior legal entity approval depending on the type of event.
- Approvals for excesses are controlled by a series of credit risk authorities held within credit policy – each Credit Risk Officer has their own level granted ultimately by the Chief Credit Officer and acts within those limits when making approvals. If an excess is beyond the Officer's approval limit, it is escalated to a higher authority. The outsourcing of credit responsibility to Credit Risk Officers is through Board approved credit policy.
- Overdraft monitoring is a daily task which is conducted on a delegated basis by Credit Risk – significant overdrafts are chased on a daily basis and according to BNYM LUX's risk appetite. All significant overdrafts and exposures are recorded and form part of the credit MI produced on a monthly basis for various management committees.

7.6 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 BNYM LUX in accordance with the CRD IV requirements.

The following definitions are used in the tables:

Exposure at Default (EAD) is defined as the amount expected to be outstanding, after any Credit Risk Mitigation, if and when 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 the reported balance sheet carrying values.

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

Geographic area is based on the continental location 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 5: Credit Risk Pre and Post Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Exposure Class

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

Credit Risk - Exposure at Default (EAD) Pre CRM by Exposure Class	EAD pre CRM		Average EAD pre CRM	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Central governments or central banks	3,078,664	3,030,013	3,326,220	2,788,139
Corporates	4,920	28,836	45,030	84,255
Covered Bonds	0	0	0	0
Institutions	566,588	857,772	903,988	1,230,516
Multilateral Development Banks	0	0	0	0
Other items	24,896	17,770	30,222	24,047
Exposures in Default	0	831	0	208
Equity	0	0	0	0
Public sector entities	0	0	0	0
International Organisations	0	0	0	0
Total	**3,675,068**	**3,935,223**	**4,305,460**	**4,127,165**

Credit Risk - EAD post CRM & CCF by Exposure Class (EUR'000)	EAD post CRM & CCF		Risk Weight Amount		Capital Requirement	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Central governments or central banks	3,078,664	3,030,013	0	0	0	0
Corporates	2,818	6,289	2,701	6,289	216	503
Covered Bonds	0	0	0	0	0	0
Institutions	566,588	857,772	113,318	171,554	9,065	13,724
Multilateral Development Banks	0	0	0	0	0	0

Other items	23,044	17,659	23,044	17,659	1,843	1,413
Exposures in Default	0	683	0	683	0	55
Equity	0	0	0	0	0	0
Public sector entities	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0
Total	**3,671,114**	**3,912,417**	**139,063**	**196,185**	**11,124**	**15,695**

Notes: EAD (Exposure at Default), CRM (Credit Risk Mitigation), CCF (Credit Conversion Factors)

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

Table 6: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Geographical Area

This table shows the EAD pre CRM by credit exposure class by geographic area of the counterparty.

SA Credit Risk by Exposure Class at 31 December 2015 (EUR'000)	Europe	Americas	MEA	APAC	Total
Central governments or central banks	3,078,664	0	0	0	3,078,664
Corporates	4,896	24	0	0	4,920
Covered Bonds	0	0	0	0	0
Institutions	439,313	93,308	467	33,500	566,588
Multilateral Development Banks	0	0	0	0	0
Other items	24,824	73	0	0	24,896
Exposures in Default	0	0	0	0	0
Equity	0	0	0	0	0
Public sector entities	0	0	0	0	0
International Organisations	0	0	0	0	0
Total	**3,547,697**	**93,404**	**467**	**33,500**	**3,675,068**

Notes: MEA (Middle East and Africa); APAC (Asia - Pacific)

SA Credit Risk by Exposure Class at 31 December 2014 (EUR'000)	Europe	Americas	MEA	APAC	Total
Central governments or central banks	3,030,013	0	0	0	3,030,013
Corporates	28,831	5	0	0	28,836
Covered Bonds	0	0	0	0	0
Institutions	697,267	86,520	0	73,985	857,772
Multilateral Development Banks	0	0	0	0	0
Other items	17,373	397	0	0	17,770
Exposures in Default	831	0	0	0	831
Equity	0	0	0	0	0
Public sector entities	0	0	0	0	0
International Organisations	0	0	0	0	0
Total	**3,774,315**	**86,922**	**0**	**73,985**	**3,935,223**

Table 7: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Counterparty Type

SA Credit Risk by Exposure Class at 31 December 2015 (EUR'000)	General governments	Credit institutions	Other financial corporations	Various Balance Sheet Items	Total
Central governments or central banks	3,078,664	0	0	0	3,078,664
Corporates	0	0	4,920	0	4,920
Covered Bonds	0	0	0	0	0
Institutions	0	566,588	0	0	566,588
Multilateral Development Banks	0	0	0	0	0
Other items	0	0	0	24,896	24,896
Equity	0	0	0	0	0
Public sector entities	0	0	0	0	0
International Organisations	0	0	0	0	0
Total	**3,078,664**	**566,588**	**4,920**	**24,896**	**3,675,068**

Table 8: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Residual Maturity

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

SA Credit Risk by Exposure Class at 31 December 2015 (EUR'000)	Less than 3 months	3 months to 1 year	Over 1 year	Total
Central governments or central banks	3,078,664	0	0	3,078,664
Corporates	4,920	0	0	4,920
Covered Bonds	0	0	0	0
Institutions	566,588	0	0	566,588
Multilateral Development Banks	0	0	0	0
Other items	24,896	0	0	24,896
Equity	0	0	0	0
Public sector entities	0	0	0	0
International Organisations	0	0	0	0
Total	**3,675,068**	**0**	**0**	**3,675,068**

SA Credit Risk by Exposure Class at 31 December 2014 (EUR'000)	Less than 3 months	3 months to 1 year	Over 1 year	Total
Central governments or central banks	3,030,013	0	0	3,030,013
Corporates	28,836	0	0	28,836
Covered Bonds	0	0	0	0
Institutions	857,772	0	0	857,772
Multilateral Development Banks	0	0	0	0
Other items	17,770	0	0	17,770

Equity	831	0	0	831
Public sector entities	0	0	0	0
International Organisations	0	0	0	0
Total	**3,935,223**	**0**	**0**	**3,935,223**

7.7 Analysis of past due and impaired exposures

An aspect of credit risk management relates to troubled 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 and related provisioning.

The following definitions are used in the tables:

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.

Impairment provision is where there is objective evidence that events have detrimentally affected the expected cash flows of an asset or a portfolio of assets. The impairment loss is the difference between the carrying value of the asset and the present value of its estimated future cash flows and recorded as a charge to the profit and loss account and against the carrying amount of the impaired asset. An impairment provision may be either specific or generally assessed.

As at 31 December 2015, BNYM LUX 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. BNYM LUX did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year to 31 December 2015.

Table 9: Impaired, past due exposures and allowance for impairment under IFRS

This table shows an analysis of impairments and allowances by exposure type using the IFRS methodology.

Impaired and past due exposures and allowance for impairment by exposure type	**Neither past due nor impaired**	**Past due but not impaired**	**Impaired exposures**		**Total**	**Allowance for impairment**
At 31 December 2015 (EUR'000s)			**Specific**	**General**		
Central governments or central banks	-	-	-	-	-	-
Institutions	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-

Impaired and past due exposures and allowance for impairment by exposure type At 31 December 2014 (EUR'000s)	Neither past due nor impaired	Past due but not impaired	Impaired exposures		Total	Allowance for impairment
			Specific	General		
Central governments or central banks	-	-	-	-	-	-
Institutions	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Collective Investment Undertakings	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	-	-	-	-	-	-

Table 10: Impaired and past due exposures and allowance for impairment by geographic area

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

Impaired and past due exposures and allowance for impairment by exposure type At 31 December 2015 (EUR'000s)	Neither past due nor impaired	Past due but not impaired	Impaired exposures		Total	Allowance for impairment
			Specific	General		
Europe	-	-	-	-	-	-
Americas	-	-	-	-	-	-
Africa	-	-	-	-	-	-
Asia Pacific	-	-	-	-	-	-
Total	-	-	-	-	-	-

Impaired and past due exposures and allowance for impairment by exposure type At 31 December 2014 (EUR'000s)	Neither past due nor impaired	Past due but not impaired	Impaired exposures		Total	Allowance for impairment
			Specific	General		
Europe	-	-	-	-	-	-
Americas	-	-	-	-	-	-
Africa	-	-	-	-	-	-
Asia Pacific	-	-	-	-	-	-
Total	-	-	-	-	-	-

Table 11: Movement on impairment and amounts taken directly to profit and loss

This table shows the movement on impairment and amounts taken directly to profit and loss as at 31 December 2015 and the comparative amounts at 31 December 2014 using the IFRS methodology.

Movement on impairment allowance	**Allowance for impairment**		
(EUR000s)	**Specific**	**General**	**Total**
At 1 January 2014	-	-	-
Amounts written off	-	-	-
Recoveries	-	-	-
Amounts charged against profit (see below)	-	-	-
Exchange and other adjustments	-	-	-
At 31 December 2014	-	-	-
Amounts written off	-	-	-
Recoveries	-	-	-
Amounts charged against profit (see below)	-	-	-
Exchange and other adjustments	-	-	-
At 31 December 2015	-	-	-

Amounts charged against profit

Amounts taken directly to profit and loss	**Profit and loss impact**	
(EUR000s)	**At 31 December 2015**	**At 31 December 2014**
New and increased impairment allowances	-	-
Releases	-	-
Recoveries	-	-
Total charged against profit	-	-

7.8 Credit Risk Mitigation

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

7.8.1 Netting

ISDA Master Agreements and netting are used to mitigate counterparty credit risk. The ISDA Agreement incorporates schedules that allow the contracting parties to customise the terms and conditions to their mutual satisfaction to cover termination events, netting arrangements, security and other matters.

Netting may take two different forms, close-out netting and settlement netting. Close-out netting refers to an agreement between BNYM LUX and a counterparty that, in the event of a default, the non-defaulting party can require that:

- All open derivative contracts be marked-to-market and summed;
- A single net payment be made as final settlement to whichever party holds the overall profit from the contracts; and
- Collateral be liquidated (if held).

Settlement netting requires that all foreign exchange obligations are payable on the same settlement date, be netted to produce a single payment obligation for each currency traded.

7.8.2 Liens over custody assets

BNYM LUX can receive liens from a counterparty over both equity and debt securities and has the ability to call on these liens in the event of a default by the counterparty.

7.8.3 Credit risk concentration

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

Credit concentration risk within BNYM LUX originates mostly through BNYM LUX's banking activities. BNYM LUX has an appetite to place only with institutions having an internal rating of 7 or above (equivalent to Moody's/S&P/Fitch external rating of A3/A-/A- respectively). This limits the spread but also ensures that exposures are well-controlled, managed and less likely to default. Guarantees are treated as an exposure against the guarantor institution and managed within this controlled environment.

The number of counterparties BNYM LUX 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. In addition, to comply with the Large Exposures Regime, Treasury Services limit placements to a maximum of €150m.

Table 12: Exposures covered by financial and other eligible collateral

This table shows by each exposure class the total exposure that is covered by cash and liens over custody assets.

Exposure Class (EUR'000)	31-Dec-15	31-Dec-14
Central governments or central banks	0	0
Corporates	2,102	22,546
Covered Bonds	0	0
Institutions	0	0
Multilateral Development Banks	0	0
Other items	1,576	111
Equity	0	0
Public sector entities	0	0
International Organisations	0	0
Total	**3,678**	**22,657**

Table 13: Exposures covered by guarantees

This table shows by each exposure class the total exposure that is covered by guarantees.

Exposures covered by guarantees by credit exposure class (EUR'000)	31-Dec-15	31-Dec-14
Central governments or central banks	-	-
Institutions maturity	-	-
Corporates	-	-
Retail	-	-
Collective Investment Undertakings	-	-
Other	-	-
Total	-	-

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.

7.9 External Credit Rating Agencies

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

Table 14: Mapping of ECAIs credit assessments to credit quality steps

BNYM LUX 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 BNYM LUX's nominated ECAIs' credit assessments to the credit quality steps.

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

Table 15: Credit quality steps and risk weights

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

Each CQS is associated with a particular risk-weighting.

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

Exposure classes	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6
Central governments or central banks	0%	20%	50%	100%	100%	150%
Public sector entities	20%	50%	100%	100%	100%	150%
Institutions	20%	50%	50%	100%	100%	150%
Institutions up to 3 months residual risk	20%	20%	20%	50%	50%	150%
Unrated institutions	20%	50%	100%	100%	100%	150%
Corporates	20%	50%	100%	100%	150%	150%
Securitisation	20%	50%	100%	350%	1250%	1250%
Institutions and corporates with short-term credit assessment	20%	50%	100%	150%	150%	150%
Collective investment undertakings ('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 16: Credit quality step pre CRM by credit exposure class

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

SA Credit Risk by Exposure Class at 31 December 2015 (EUR'000)	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
Central governments or central banks	3,078,664	0	0	0	0	0	0	3,078,664
Corporates	0	235	4,685	0	0	0	0	4,920
Covered bonds	566,588	0	0	0	0	0	0	566,588
Institutions	0	0	0	0	0	0	0	0
Multilateral Development Banks	0	0	0	0	0	0	24,896	24,896
Other items	0	0	0	0	0	0	0	0
Exposures in default	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	0	0
Public sector equities	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0
Total	**3,645,252**	**235**	**4,685**	**0**	**0**	**0**	**24,896**	**3,675,068**

SA Credit Risk by Exposure Class at 31 December 2014 (EUR'000)	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
Central governments or central banks	3,030,014	0	0	0	0	0	0	3,030,014
Corporates	0	6	28,830	0	0	0	0	28,836
Covered bonds	0	0	0	0	0	0	0	0
Institutions	857,772	0	0	0	0	0	0	857,772
Multilateral Development Banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	17,770	17,770
Exposures in default	0	0	0	0	0	0	831	831
Equity	0	0	0	0	0	0	0	0
Public sector equities	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0
Total	**3,887,786**	**6**	**28,830**	**0**	**0**	**0**	**18,601**	**3,935,223**

Table 17: Credit quality step post CRM and CCF by credit exposure class

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

SA Credit Risk by Exposure Class at 31 December 2015 (EUR'000)	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
Central governments or central banks	3,078,664	0	0	0	0	0	0	3,078,664
Corporates	0	233	2,585	0	0	0	0	2,818
Covered bonds	0	0	0	0	0	0	0	0

Institutions	566,588	0	0	0	0	0	0	566,588
Multilateral Development Banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	23,044	23,044
Exposures in default	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	0	0
Public sector equities	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0
Total	**3,645,252**	**233**	**2,585**	**0**	**0**	**0**	**23,044**	**3,671,114**

SA Credit Risk by Exposure Class at 31 December 2014 (EUR'000)	**Credit Quality Steps**							
	1	**2**	**3**	**4**	**5**	**6**	**Non CQS**	**Total**
Central governments or central banks	3,030,014	0	0	0	0	0	0	3,030,014
Corporates	0	1	6,288	0	0	0	0	6,289
Covered bonds	0	0	0	0	0	0	0	0
Institutions	857,772	0	0	0	0	0	0	857,772
Multilateral Development Banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	17,659	17,659
Exposures in default	0	0	0	0	0	0	683	683
Equity	0	0	0	0	0	0	0	0
Public sector equities	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0
Total	**3,887,786**	**1**	**6,288**	**0**	**0**	**0**	**18,342**	**3,912,417**

7.10 Counterparty Credit Risk

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

As at 31 December 2015, BNYM LUX did not have any trading book positions, derivative positions were held in its banking book and therefore had associated counterparty credit risk.

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

The Credit Value Adjustment (CVA) reflects the current market value of the counterparty credit risk by measuring the difference between the risk-free value of the portfolio and the true value of the portfolio, when defaults have been considered. The credit valuation adjustment calculation is based on the derivative position valuations in accordance with the standardised formula without eligible hedges

Table 18: Counterparty credit risk

This table shows the risk mitigating impact of netting and collaterisation on counterparty credit risk relating solely to foreign currency derivative contracts under the mark-to-market method (EUR'000).

Counterparty Credit Risk	31-Dec-15	31-Dec-14
Derivatives - Mark to Market Method		
Gross Positive Fair Value of Contracts	39,010	50,434
Potential Future Credit Exposure	0	0
Netting Benefits	0	0
Net Current Credit Exposure	39,010	50,434
Collateral Held Notional Value	0	0
Exposure and Collateral Adjustments	0	0
Net Derivatives Credit Exposure	39,010	50,434
SFT - under Financial collateral comprehensive method		
Net Current Credit Exposure	0	0
Collateral Held Notional Value	0	0
Exposure and Collateral Adjustments	0	0
Net SFT Credit Exposure	0	0
Counterparty Credit Risk Exposure	**39,010**	**50,434**

Note: SFT (Securities Financing Transactions)

7.11 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.

Table 19: Credit valuation adjustment (CVA)

This table shows the credit valuation adjustment using the standardised approach.

Counterparty Credit Risk (EUR'000)	31-Dec-15	31-Dec-14
CVA according to standardised method		
Exposure Value	38,051	49,194
Risk Exposure Amount Capital	8,866	11,462
Requirements	709	917

8 Market Risk

Market risk is defined as the risk of adverse change to the economic condition of BNYM LUX due to variations in prices, rates, implied volatilities, or correlations of market risk factors. Market risk factors include but are not limited to interest rates, foreign exchange rates, market liquidity, equity prices, credit spreads, prepayment rates, commodity prices and issuer risk associated with the Bank's trading and investment portfolios. BNYM LUX's exposure to market risk arises mainly from foreign exchange (FX) risk and non-traded interest rate risk.

Foreign exchange risk arises from operational flows in foreign currencies where clients are billed in currencies other than Euro. A lower amount of market risk also arises as a result of investment in money market or other collective investment undertakings.

Interest rate risk (IRR) is the risk associated with changes in interest rate that affects net interest income from interest earning assets and interest paying liabilities. The interest rate risk for BNYM LUX, which only has a banking book, is monitored on a daily basis by Market Risk Management.

BNYM LUX's exposure to market risk arises mainly from foreign exchange risk from operational flows in foreign currencies where clients are billed in currencies other than Euro. A lower amount of market risk also arises as a result of interbank and central bank placements or other collective investment undertakings.

Daily limits are monitored by a dedicated market risk officer who ensures that BNYM LUX operates in accordance with the limits set down in the BNYM LUX risk appetite and reported on a regular basis to senior management.

Table 20: Market risk – Standardised Approach

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

Positions subject to Market Risk (EUR'000)	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Foreign Exchange Risk	14,252	3,038	1,140	243
Total	14,252	3,038	1,140	243

8.1 Interest Rate Risk in the Banking Book

BNYM LUX has no material assets and liabilities subject to IRR, does not run a trading book and seeks to match its interest rate risk on its non-trading book. Its IRR exposure for both on-balance sheet and off-balance sheet assets and liabilities mainly arises from movements in domestic and foreign interest rate.

The Board sets the overall tolerance for IRR in the form of DV01 limits and delegates to the Asset and Liability Committee (ALCO) a mandate to oversee the management of these risks and the responsibility for devising and executing IRR strategies and policies consistent with the risk appetite.

IRR exposure has a daily value-at-risk (VaR) calculation against a stop loss limit and is monitored daily by the Market Risk Management team to ensure that BNYM LUX operates within its risk appetite. Any breaches are reported to the RMC and the Board.

Table 21: Net interest income sensitivity by currency

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

Currency (000)s	+ 100 basis points 2015	- 100 basis points 2015	+ 100 basis points 2014	- 100 basis points 2014
GBP	-3,976	4,021	-4,802	4,857
USD	-48,036	48,579	-40,360	40,816
EUR	-23,091	23,353	-28,507	28,829
Other currencies	-8,261	8,354	-7,510	7,595
Total	-83,363	84,307	-81,179	82,098
As percentage of net interest income				

9 Operational Risk

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

9.1 Operational Risk Management Framework

The Operational Risk management Framework (ORMF) provides the processes and tools necessary to fulfil a strategy of managing risk through a culture of risk awareness, a clear governance structure, well defined policies, procedures and reporting and suitable tools for reporting and monitoring to effectively identify, manage, mitigate, monitor and report the risks in an organised way to the appropriate governance bodies.

The ORMF defines roles and responsibilities through the global policy, using the three lines of defence model as a foundation. Thus, responsibility for the management of Operational Risk sits first and foremost with the business and functions as the first line of defence, where ownership and accountability for the identification, assessment and management of risks that arise through the course of its business and service provision reside.

The second line of defence, the independent Risk Management function, is responsible for reviewing and challenging the risks identified, assessed and managed by the first line of defence. The Operational Risk function is also responsible for building and maintaining the ORMF framework and partnering the first line of defence to enable them to embed it.

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

Therefore, the monitoring and reporting of operational risks occurs within the business, entity and EMEA region risk oversight functions as well as decision-making forums such as business risk committees and BNYM LUX's Risk Management Committee.

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

- Identify and understand key business processes and risks
- Design and document controls
- Execute the controls
- Monitor key risk indicators
- Report key risk indicator performance, issues and actions to resolve
- Elevate concerns
- Strengthen controls
- Re-assess and update when necessary.

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

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

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

Additionally, BNYM LUX has, in line with the Enterprise risk policy for risk appetite, set a risk appetite statement which recognises the inherent nature of operational risk and the reliance on the ORMF to mitigate it.

BNYM LUX is also implementing a risk register which will capture the most material risks associated with the business undertaken and the risk mitigations currently in place. Operational risk is amongst BNYM LUX's material risks. The risk register will be updated at least annually.

Current issues, emerging and top risks, adverse KRIs and OREs (>$10,000) are reported to the BNYM LUX Risk Management Committee. Regional Committees such as the EMEA Senior Risk Management Committee also monitor and incorporate the material risks of BNYM LUX in forming its regional risk assessment.

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

9.2 Capital Resource Requirement

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

10 Leverage Ratio

The leverage ratio by 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 items.

Table 22: Leverage ratio

This table shows the components of the leverage ratio exposure, including asset exposure values, off-balance items and adjustments (EUR’000).

Regulatory leverage ratio exposures	31-Dec-15
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,678,219
Asset amounts deducted in determining Tier 1 capital	-3,427
Total on-balance sheet exposures (excluding derivatives and SFTs)	**3,674,792**
Derivative exposures	
Replacement cost associated with derivatives transactions	0
Add-on amounts for PFE associated with derivatives transactions	39,010
Exposure determined under Original Exposure Method	**0**
Total derivative exposures (sum of lines 4 to 5a)	**39,010**
Securities financing transaction exposures	
SFT exposure according to Article 220 of CRR	0
SFT exposure according to Article 222 of CRR	0
Total securities financing transaction exposures	**0**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	0
Adjustments for conversion to credit equivalent amounts	0
Total off-balance sheet exposures (sum of lines 17 to 18)	**0**
Capital and Total Exposures	
Tier 1 capital	77,829
Exposures of financial sector entities according to Article 429(4) 2nd of CRR	0
Leverage Ratios	
Total Exposures (sum of lines 3, 11, 16, 19 and 21a)	3,713,802
End of quarter leverage ratio	2.0976%
Leverage ratio (avg of the monthly leverage ratios over the quarter)	1.7683%
Choice on transitional arrangements and amount of derecognized fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	77,829
Amount of derecognized fiduciary items in accordance with Article 429(11) of CRR	0

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

11 Remuneration Disclosure

11.1 Governance

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

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

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

To ensure alignment with local regulations in BNY Mellon's EMEA (Europe, Middle-East and Africa) region, the EMEA Remuneration Governance Committee (ERGC) was set up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses.

The Board of The Bank of New York Mellon (Luxembourg) S.A. had approved a remuneration policy statement that applies to all staff of the legal entity, and which ensures that compensation, especially for Material Risk Takers, is in line with the risk appetite of the legal entity.

The Board has delegated the annual approval of variable compensation awards for Material Risk Takers to two senior non-executive directors.

11.2 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 regularly 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, where appropriate.

11.3 Fixed Remuneration

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

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

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

11.4 Variable Compensation Funding and Risk Adjustment

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

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

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

11.5 Ratio between Fixed and Variable Pay

The total variable remuneration for Material Risk Takers will not exceed 100% of their fixed remuneration, unless the shareholders, on proposal of the Board, decide to put the limit at 200% of fixed remuneration. In line with the decision taken by the HRCC, the general assembly of shareholders of The Bank of New York Mellon (Luxembourg) S.A. has approved a maximum ratio of variable remuneration is 200%.

11.6 Deferral Policy and Vesting Criteria

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

11.7 Variable Remuneration of Control Function Staff

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

11.8 Quantitative Disclosures

The tables below provide details of the aggregate remuneration of senior management and Material Risk Takers for BNYM LUX for the year ending 31 December 2015.

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

Table 23: Aggregate Remuneration Expenditure for Material Risk Takers in 2015 by Business (€000s)

	BNYM LUX		
	Investment Management	**Other[2]**	**Total**
Total Remuneration[1]	0	3,869	3,869

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

[2] Includes all support functions and general management positions.

Table 24: Aggregate Remuneration Expenditure for MRTs by Remuneration Type

	BNYM LUX		
	Senior Management[4]	Other	Total
Number of beneficiaries	8	14	22
Fixed Remuneration[3]	1,214	1,799	3,014
Total Variable Remuneration	540	316	856
Variable Cash	366	305	671
Variable Shares	174	11	185

[3] Fixed Remuneration includes base salary and any cash allowances.

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

Table 25: Total Deferred Variable Remuneration for MRTs Outstanding from Previous Years This table shows the total deferred remuneration for MRTs outstanding from previous years.

	BNYM LUX		
	Senior Management	Other	Total
Number of beneficiaries	8	14	22
Total Deferred Variable Remuneration Outstanding from Previous Years	45	2	47
Total Vested	0	0	0
Total Unvested	45	2	47

Table 26: Number and Value of New Sign-on and Severance Payments made during 2015 This table shows the number and value of new sign-on and severance payments made during 2015.

	BNYM LUX		
	Senior Management	Other	Total
Number of Sign-on payments awarded during the Financial Year	0	0	0
Value of Sign-on payments awarded during the Financial Year	0	0	0
Number of Severance payments awarded during the Financial Year	0	0	0
Value of Severance payments awarded during the Financial Year	0	0	0
Highest Individual Severance payment awarded during the Financial Year	0	0	0

Table 27: Number of Individuals being Remunerated EUR 1 million or more

	BNYM LUX Total Number of Individuals
EUR 1m – EUR 1.5m	0
EUR 1.5m – EUR 2m	0

12 Significant change subsequent to 31st December 2015

On March 8, 2016 an Extraordinary General Meeting of Shareholders was held and the share capital of the Bank was increased by EUR 140,000,000 from EUR 74,831,463 to EUR 214,831,463 without increase in the number of shares. This has improved the reported capital ratios for BNYM LUX along with the leverage ratio.

The following risk metric reflect BNYM LUX's risk profile following the capital injection.

Metrics	31 March 2016		31 December 2015	
	EURm	Ratio	EURm	Ratio
Common equity tier 1 capital	217,800	49.31%	77,829	32.6%
Total tier 1 capital	217,800	49.31%	77,829	32.6%
Total capital	217,800	49.31%	77,829	32.6%
Risk weighted assets	441,736	-	238,391	-
Leverage ratio	-	3.01%	-	1.77%

Appendix 1 Other Risks

Liquidity Risk

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

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

BNY Mellon defines Intraday Liquidity Risk as the risk that it cannot access funds during the business day to make payments or settle immediate obligations, usually in real time, primarily due to disruptions or failures. The BNY Mellon Intraday Liquidity Policy is specifically dedicated to managing these risks.

BNYM LUX aims to be self-sufficient for liquidity and seeks to maintain a very liquid balance sheet at all times. Its balance sheet is liability driven in nature primarily due to the nature of client deposit taking activity. BNYM LUX does not originate significant assets from lending activities, and therefore funding assets are not a significant use of liquidity. While sizable overdrafts can appear periodically, large deposits offset these amounts. Significant deposit balances are transactional in nature and exhibit a degree of "stickiness" and represent the transactional nature of the client relationship.

Business and Financial Risk

Legal Entity and Business Risk

Business Acceptance Workgroups are responsible for aligning new business to appropriate business lines and subsidiaries, assessing and approving the associated risks.

Each legal entity has a risk manager aligned to the business. Risk managers are independent of the business and oversee the adherence to corporate risk policies and governance requirements. The risk management organisation is based on a three tiered structure beginning with corporate risk which creates the corporate policies, Risk management form the second tier, and the third tier is the operational unit which is considered to be the primary owner of all risk relating to the business activities. Each operational unit has a dedicated Embedded Control Management (ECM) resource assigned to it. At the direction of the business or the Global Operational Control management team, the ECM resource will conduct testing of the operational activities to support internal and external audit work.

Regulatory and Compliance Risk

Compliance risk is comprised of sustaining loss arising from non-compliance with laws, directives, regulations, reporting standards and lack of adequately documented and understood processes. Regulatory risk is mitigated using Stress Testing that is carried out on a regular basis, and prior to any regulatory changes enters into force.

Monitoring & Reporting Risk is the risk of loss arising from a failure to comply with financial reporting standards, agreements or regulatory requirements. This includes risks resulting from action taken by existing and new stockholders, regulators and investors who may have sustained losses due to incomplete, inaccurate or untimely reporting of financial performance.

BNYM LUX aims to comply with the applicable laws, regulations, policies, procedures and BNY Mellon's

Code of Conduct. Existing and new directives and regulations are monitored and reviewed by Compliance and Risk management and findings are reported to senior management and the Board. Strategies and preparations to comply with regulations are put in place when necessary.

Reputation Risk

Reputation risk is the risk to the bank's brand and relationships which does not arise out of any error. It can arise from all aspects of business activities, including but not limited to operational failures in business practices, legal or regulatory sanctions, joint ventures with outside firms, engagements with third party vendors, or off-balance sheet activities.

BNY Mellon relies heavily on its reputation and standing in the market place to retain and attract clients. Through analysis of other risks, potential reputational impacts have been identified as follows:

- Group default or reputational event could lead to loss of confidence in the brand.
- Legal or operational event leading to publicised failure could lead to loss of confidence in the brand.
- Inability to provide products and services that fulfil local and/or international law, compliance directives or regulations. This may also result in regulatory penalties and subsequent loss of business.

Legal Risk

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

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

- Corporate
- Client
- Employee
- Suppliers

These can occur as a result of non-payment / non-performance. They are mitigated using the legal documents that specify the responsibilities of both parties and the procedures for resolving disputes. The legal risk associated with Corporate, Client and Supplier legal risk are considered low, based on historical and current experience and this is not envisaged to change on a business as usual basis.

Settlement Risk

Settlement risk is the probability of loss arising from the failure of one counterparty to settle its side of a transaction, thus preventing other counterparties from settling their commitments. It tends to occur when payments are not exchanged simultaneously such as in a multi-leg Swap trade.

BNYM LUX is not subject to settlement risk as it holds no securities, or commodities commitments to settle during the reporting period. BNYM LUX has no trading book. Since January 2014, the bank transacts FX trades for banking book purposes with intra-group legal entities and trades are settled within one business day. To date, the bank has not experienced any unsettled FX transactions.

Non-Trading Book Exposures in Equities

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

Securitisation Risk

Securitisation risk is the risk that the capital resources held in respect of assets that BNYM LUX has securitised is insufficient to cover associated liabilities. As at 31 December 2015 and during the reporting period BNYM LUX did not have any securitisation risk-weighted exposure.

Outsourcing Risk

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

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

BNYM LUX's outsourcing policy describes minimum standards that should be adopted when considering or dealing with a service and/or activity that is outsourced to another legal entity, either within the BNY Mellon group or to an external provider and establishes a framework for evaluating and analysing outsourcing projects.

Business Risk

Business risk is the risk of loss that the business environment poses to BNYM LUX's profitability. It normally consists of items such as changes in the external macro environment or client behaviour, inappropriate management actions and performance of competitors. The list is not exhaustive.

The principal business risk for BNYM LUX is within the asset servicing and alternative investment services businesses as this is mainly driven by the fact that fees are significantly based on the client's net asset value for fund accounting and custody. There is also a lower degree of business risk associated with Corporate Trust. As business risk is difficult to assess, it has been defined as the residual risks that confronts BNYM LUX after taking all known and quantifiable risks into consideration.

Regular monitoring of assets under custody, revenue and profitability is a key control used to mitigate the risk.

Concentration Risk

Concentration risk is the risk of loss arising from significant interrelated asset or liability exposures, which in cases of distress associated with markets, sectors, countries, or areas of activity, may threaten the 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).

BNYM LUX manages concentration risk as part of its credit, market, operational and liquidity management policies.

Group Risk

Group risk is the risk that the financial position of BNYM LUX may be adversely affected by its relationships (financial and non-financial) with other entities within BNY Mellon or by risks which may affect the financial position of the whole Group, for example reputational contagion or Group default.

As part of a large complex and interconnected company, BNYM LUX has a number of dependencies on BNY Mellon. These range from business leadership, dependency on certain IT systems and support services provided by central functions.

BNYM LUX management has considered several possible scenarios where these services may be affected, these include IT services outage and other business continuity issues. Although these will cause operational issues they are not expected to have a significant cost impact and are therefore not modelled, but are included in the scenarios as part of operational risk assessment and in the liquidity stress testing.

Model Risk

Model risk refers to the possibility of unintended business outcomes arising from the design, implementation or use of models. Model risk includes the potential risk that management makes incorrect decisions based either upon incorrect model results, or incorrect understanding and use of model results.

Model risk can result in material financial loss, inaccurate financial or regulatory reporting, misaligned business strategies or damage to the BNYM LUX or, BNY Mellon as a whole, reputation. BNYM LUX uses models in its risk management framework. All models have been assessed in line with the relevant corporate policies and model risk management framework wherein the individual model is categorised into one of three tiers based on materiality, complexity, and level of reliance. The tiers determine the controls applicable to the model classes. The Enterprise Model Risk Committee oversees model risk management at the enterprise level and approves the overall framework and standards, which are applicable across the organisation. The Model Risk Management Group, based in the US, retain ultimate responsibility for overall model governance.

Model Risk Management Governance has responsibility for the governance of inventory and provides a mechanism to report on models to key stakeholders.

Models that impact the capital assessment process are categorised as Tier 1 models and the execution of the validation of Tier 1 models is done by a designated Independent model validation function. Tier 1 models are required to be validated or reviewed, as per the validation standards, on at least an annual basis.

BNY Mellon internal audit provides independent reviews of compliance with the corporate model validation policy.

Strategic Risk

Strategic risk is defined as the risk of direct or indirect loss arising from the adverse effects or the improper implementation of business decisions. It is a function of the compatibility of an organisation's strategic goals, the business strategies developed, the resources deployed to achieve those goals and the quality of implementation. It can result from either a misalignment between strategic decisions taken at the Asset Servicing, Alternative Investment Services and Corporate Trust business level which impact BNYM LUX, or failure to deliver business value through new strategic initiatives.

Country Risk

Country Risk is the risk of unfavourable evolution of operating profits and/or value of assets due to changes in the business environment resulting from political or macroeconomic factors. It can also be due to exposure to sovereign and economic debts in EMEA countries such as Italy, Russia, and the Eurozone.

Pension Obligation Risk

Pension obligation risk is caused by contractual liabilities or moral obligation to a company's staff pension schemes. BNYM LUX only operates a defined contribution pension scheme for its staff, and has no defined benefit pension scheme, as such it is not exposed to the pension obligation risk.

Appendix 2 Glossary of Terms

The following terms are used in this document:

- **ALCO:** Asset and Liability Committee
- **Basel III:** The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010
- **BNY Mellon:** The Bank of New York Mellon
- **CRD IV:** On 27 June 2013, the European Commission published, through the Official Journal of the European Union, its legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR), which together form the CRD IV package. Amendments published on 30 November 2013 were made to the Regulation. The package implements the Basel III reforms in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. CRD IV rules apply from 1 January 2014 onwards, with certain requirements set to be phased in
- **Capital Requirements Directive (CRD):** A capital adequacy legislative package issued by the European Commission and adopted by EU member states
- **Capital Requirements Regulation (CRR):** Regulation that is directly applicable to anyone in the European Union and is not transposed into national law.
- **Commission de Surveillance du Secteur Financier (CSSF):** Responsible for the prudential supervision of credit institutions in Luxembourg
- **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.
- **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.
- **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:** BNYM LUX's risk governance framework has been developed in conjunction with BNY Mellon requirements. Key elements of the framework are:
  - Formal governance committees, with mandates and attendees defined
  - Clearly defined escalation processes, both informally (management lines) and formally (governance committees, board, etc.)
  - A clear business as usual process for identification, management and control of risks
  - Regular reporting of risk issues
- **Risk Management Committee (RMC):** A committee which meets on a monthly basis to provide governance on risk related items arising from the business of the group
- **Risk Weighted Assets (RWAs):** 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 Standard 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

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