BNY MELLON

The Bank of New York Mellon
Frankfurt Branch

# Pillar 3 Disclosure

31 December 2021

## Executive summary



## Risk



## Human resources



## Appendices

## Attestation Statement

I confirm that the 31 December 2021 Pillar 3 Disclosure meets the relevant regulatory requirements as described in section one of this report and it has been prepared in accordance with the internal policies and controls in place which have been approved by the Branch's Management Function (the 'Branch Management').

As set out in the Risk section of this report, Branch Management is responsible for approving policies and procedures as may be required by law or otherwise appropriate and for reviewing The Bank of New York Mellon Frankfurt Branch's processes for compliance with applicable laws, regulations and the internal policies including the Code of Conduct.

These disclosures were approved by Branch Management on 8 April 2022.

D. Patrikios

Dennis Patrikios

Branch Manager

Member of Frankfurt Branch Management

Executive summary

# 1 Article 431 CRR II - Scope of disclosure requirements

## 1.1 Disclosure policy

These Pillar 3 disclosures are published for The Bank of New York Mellon Frankfurt Branch (the 'Company') in accordance with the Capital Requirements Directive[1] ('CRD V'), the Capital Requirements Regulation[2] ('CRR II') and in conjunction with §26a and §53 Kreditwesengesetz[3].

The disclosures cover the Company as at 31 December 2021.

Further, the disclosures were approved by the Company's branch management body on 8 April 2022.

1. Directive 2019/878/EU and of the Council of 20 May 2019, amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

2. Regulation (EU) No 2019/876 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 2013/575, 20 May 2019.

3 http://www.gesetze-im-internet.de/kredwg/index.html

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

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

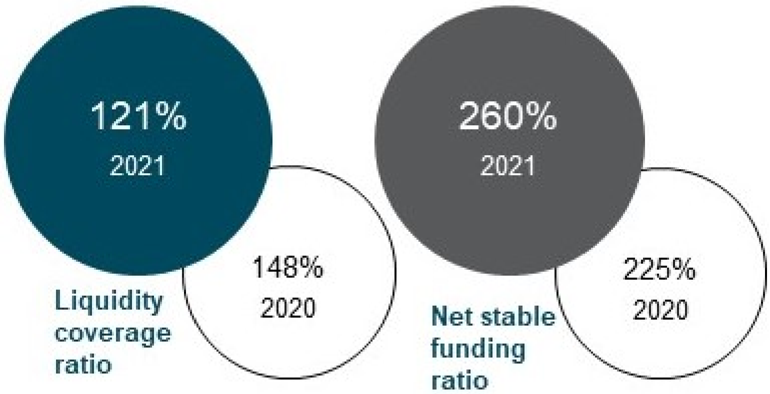
The Basel Committee on Banking Supervision ('BCBS') requires these disclosures to be published at the highest level of consolidation. The Company has no subsidiaries therefore these disclosures have been prepared on a standalone basis.

These disclosures provide selected information relating to the Company's capital, the risks it faces, and the management of those risks. 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, information contained within the Pillar 3 disclosure has not been subject to external audit.

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

The following risk metrics present the Company's key risk components as at 31 December 2021. Please see *Key Metrics* for the further details.




Note: The Company's LCR is presented using a twelve months average in line with the requirements of Article 451a (2) of CRR II.

## 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 CRD and establishes a more risk sensitive approach to capital management. It is comprised of three pillars:

**Pillar 1 - Minimum capital requirement**
Establishes rules for the calculation of minimum capital for credit risk, counterparty credit risk, market risk, operational risk and capital resources requirements.

**Pillar 2 - Supervisory review process**
Requires firms and supervisors to undertake an internal capital adequacy assessment process to determine whether the financial institution needs to hold additional capital against risks not adequately covered in Pillar 1 and to take action accordingly.

**Pillar 3 - Market discipline**
Complements the other two pillars and effects market discipline through public disclosure showing an institution's risk management policies, approach to capital management, capital resources and an analysis of its credit risk exposures.

Wherever possible and relevant, consistency has been ensured between The Bank of New York Mellon ("BNY Mellon") Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP ('Internal Capital Adequacy Assessment Process') content e.g. disclosures concerning risk management practices and capital resources at the year end.

### 1.3 Purpose of Pillar 3

The aim of the Pillar 3 disclosures is to provide market participants with accurate and comprehensive information regarding the risk profile of the Company, including key information on the scope of application, capital, risk exposures, and risk assessment processes, enabling users to better understand and compare its business, its risks and capital adequacy.

To that end, these Pillar 3 disclosures focus on material risks relevant to the Company at the disclosure date subject to applicable exemptions listed at the end of this section:

- **Credit:** The risk of loss if any of the Company's borrowers or other counterparties were to default on their obligations to the Company. Credit risk is resident in the majority of the Company's assets, but primarily concentrated in the loan and securities books, as well as off-balance sheet exposures such as lending commitments, letters of credit ('LC'), and securities lending indemnifications;
- **Operational:** The risk of loss resulting from inadequate or failed internal processes, human factors and systems, breaches of technology and information systems, or from external events. Also includes fiduciary risk, reputational risk, outsourcing risk and litigation risk.

The Company includes both quantitative and qualitative disclosures to show the relevant information. 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.

In accordance with §1 FreistVO and §53c KWG, the Company is not required to apply Article 11 - 386 CRR II.

Further, in accordance to Bundesanstalt für Finanzdienstleistungsaufsicht ('BaFin') circular published on 17 February 2016 the Company, as a branch per §53c KWG, is not required to calculate or disclose the Basel III leverage ratio. Furthermore the Company also received a derogation from BaFin regarding the need to create a local risk bearing capacity concept as the branch is included in the risk bearing capacity concept of the parent entity, which ensures appropriate risk taking across all branches. This derogation also entails that the Company is not obligated to have a standalone own funds plan or to perform a standalone ICAAP, as the Company is integrated in the parents entity own funds plan and ICAAP. For further details please see the 2021 annual report and the Pillar 3 disclosure of BNY Mellon Corporation available at:

BNY Mellon Investor Relations

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

In accordance with CRD V, the Branch Management function of the Company may omit one or more disclosures if the information provided is not regarded as material. The criteria for materiality used in these disclosures is that the Company 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 Branch Management 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 branch management of the Company 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.

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

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

Disclosure will be made annually based on calendar year end and will be published in conjunction with the filing of the Annual Report and Financial Statements. The Company will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy, and information about risk exposure and other items prone to rapid change.

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

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

BNY Mellon Investor Relations - Pillar 3

See section investor relations, Pillar 3 Disclosures, Additional Country Disclosures.

## 1.6 Branch management approval

These disclosures were approved for publication by the Company’s Branch Management on 8 April 2022. The Branch Management has verified that they are consistent with formal policies adopted regarding production and validation and are satisfied with the adequacy and effectiveness of the risk management arrangements.

## 1.7 Key 2021 and subsequent events

The coronavirus pandemic had a significant effect on the global macroeconomic environment and markets in 2020 and 2021. Nevertheless, the Company continued to operate business as usual without disruption to business continuity or outsourced operations.

Interest rates have continued to remain at a low level in 2021. The ECB persevered its deposit facility rate at -0.50% unchanged for 2021. Short-term interests USD rates declined significantly in the first quarter of 2020 and have remained low through 2021, which resulted in lower net interest revenues. In this context, the Company continued to maintain a strong balance sheet with high levels of capital, liquid assets and low levels of leverage. This demonstrates the Company's resilience to any short (i.e. ongoing Covid-19 pandemic) to medium term financial shock which may impact the Company's business and that the Company is a low risk institution for its clients and regulators.

## 1.8 Article 437 CRR II - Own funds

For regulatory purposes the own funds of the parent (BNY Mellon Corporation) is used. The parent´s total capital as at 31 December 2021 was: US$24,711 million (2020: US$27,795 million). Further details can be found in the Pillar 3 disclosure of the parent, available at:

BNY Mellon Investor Relations - Pillar 3

At 31 December 2021 the Company's capital consists of €5.1 million (2020: €5.1 million) endowment capital.

## 1.9 Article 436 CRR II - Scope of application

BNY Mellon Group ('BNY Mellon') is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of 31 December 2021, BNY Mellon had $46.7 trillion in assets under custody and/or administration, and $2.4 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE: 'BK'). Additional information is available on www.bnymellon.com. Follow us on Twitter @BNYMellon or visit our newsroom at www.bnymellon.com/newsroom for the latest company news.

The Company is a legally dependent branch of BNY Mellon. At 31 December 2021 The Bank of New York Mellon Corporation is the sole shareholder of BNY Mellon, headquartered in New York.

The corporate structure of the Company as at 31 December 2021 is illustrated in Figure 1 below.

**Figure 1: The Bank of New York Mellon's Branches**

**Operating Model**

The Operating Model refers to how BNY Mellon collaborates, organises and manages its business with a focus on optimising the balance sheet, driving efficiencies and enabling growth. It also describes the operations and technology which enables businesses to serve clients. The model has evolved and covers 5 key areas: Banking and other entities (which includes the EMEA Operating Model Programme or Three-Bank-Model), Governance & Accountability, Booking and Solicitation Practices, Resilience - Operations and Technology, and People and Real Estate. Furthermore, regulatory change has been a large component of the change agenda and will continue to be so with a large number of regulatory change initiatives in execution mode as well as on the horizon. Digital and data initiatives are also key to the Company's strategy.

**Banking and other Entities (EMEA Operating Model Programme) -** This has been a major strategic initiative for BNY Mellon in the EMEA region over the past few years rationalising our legal entity structure to a three bank model, establishing a dual sub-custody network and aligning clients to the appropriate legal entity and network.

**Governance & Accountability -** BNY Mellon has been particularly focused on strengthening governance and accountability. Senior leadership has been engaged in a governance and accountability review related to the reporting line structure, aimed at meeting regulatory expectations as well as those of our clients and other stakeholders.

**Booking and Solicitation Practices -** Booking Principles are BNY Mellon's approach to guide the booking of business to the appropriate legal entity for each client's domicile and product considering local rules, licenses, permissions and product infrastructure. Any proposed booking for non-EU jurisdictions would be subject to the relevant conditions and restrictions from the applicable third country regime for regulated activity. Booking Principles are maintained by the lines of business and centrally coordinated through a First Line of Defense Controls Framework.

**Resilience – Operations and Technology -** BNY Mellon is documenting its detailed Technology Strategy in a distinct document and this will be developed alongside and in close alignment with the Company's Business Strategy and the Enterprise Technology Strategy.

**People -** Talent attraction, retention and development are an integral part of BNY Mellon's growth strategy. Our ability to deliver on growth strategy and plans is largely based on the talent that is acquired, retained and developed. Diverse panels and short lists together with greater familiarity of the talent pipeline is key for the strategy.

## 1.10 Core business lines

The Company primarily offers its clients Treasury Services, in particular:

- short-term credit foreign trade financing, letters of credit and follow-on financing guarantees;
- euro payment services; and,
- client deposits.

The clients, which are almost exclusively international financial institutions, are located primarily in the Middle-East, Europe and Asia.

# Risk

## 2 Article 435 CRR II - 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 BNY Mellon group level as an imperative. Clients and market participants need to have confidence that all of BNY Mellon's legal entities will remain strong and continue to deliver operational excellence and maintain an uninterrupted service. Therefore, the Company 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 financial services companies.

Whilst BNY Mellon assumes less balance sheet risk than most financial services companies, it does assume an array of different risks 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 limits are in place to govern its risk-taking activities across key 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 Branch Management takes place; and,
- there is a capital planning process which incorporates both economic capital modelling and a stress testing programme.

The Company is integrated in BNY Mellon Corporation's risk management program and has embedded the above policies and procedures in local governance processes. As stated in the parent's pillar 3 disclosure, the goal of Enterprise Risk Management is to adopt a conservative risk appetite in order to maintain a strong capital position and balance sheet throughout all market cycles with strong liquidity, superior asset quality, ready access to external funding sources at competitive rates and a robust capital structure whilst delivering operational excellence to meet stakeholders' expectations.

## 2.1 Board of directors of parent company

The main duty and responsibility of the Board is to approve the business and risk strategy of the Group. Whilst acting autonomously and in accordance with its legal and regulatory requirements, the Board aligns BNY Mellon's strategy to that of its primary shareholder. The Board has overall responsibility for the establishment and maintenance of BNY Mellon's risk appetite framework and for the approval of the risk appetite statement. The Board must ensure that strategic and business plans are consistent with the approved risk appetite. The Board meets at least quarterly and also has responsibility for:

- holding management 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; and,
- supervision of BNY Mellon affiliates and branches.

## 2.2 Risk governance

BNY Mellon Corporation risk management is coordinated at regional, legal entity and line of business levels. A formal governance hierarchy is in place to ensure effective escalation of issues through the regional and global structure.

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.

### 2.2.1 Branch management

The Branch Management of the Company as the main delegate of the Board is responsible for:

- conducting and developing the activities of the Company 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 the Company has an effective organization 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 the Company;
- implementing an effective system of internal controls and an adequate compliance program;
- reporting at regular intervals to the Board on the status of affairs, internal controls and compliance. The General Management must promptly report to the Board any material breaches of law, regulation, code of conduct and standards of good practice; and,
- ensuring adequate oversight and control over any outsourcing arrangements.

The Branch Management meets at least monthly and the directors who served during the year were:

| Board member | Function at the Company | Name of the other company in which an external function is exercised | Location (country) | Type of activities | Listed company (Y/N) | External mandate (title) | Capital connection with the Company (Y/N) |
|---|---|---|---|---|---|---|---|
| Christopher Porter | Branch Manager | N/A | | | | | |
| Daniel Cuncic | Branch Manager | N/A | | | | | |
| Dennis Patrikios | Branch Manager | Assos BV | NL | Pension | N | Owner | N |

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

### 2.2.2 Legal entity risk management

The oversight of risk management within the Company is governed by the Branch's management body as outlined in 2.2.1 - Branch management.

### 2.2.3 Regional risk governance

A regional level risk governance structure is in place to oversee all business and legal entity risk. Oversight and escalation is provided through the following key committee:

**EMEA Senior Risk and Control Committee ('ESRCC')** - The purpose of the Europe, Middle East and Africa ('EMEA') Senior Risk and Control Committee is to provide regional risk management oversight and act as a point of convergence for the co-ordination, transparency and communication of material pan-EMEA issues (live or emerging) within the region.

The Committee escalates to:

- Senior Risk and Control Committee ('SRCC').

With a number of committees reporting to it:

- EMEA Advisory Control Council ('EACC');
- EMEA Asset Liability Committee ('EALCO');
- EMEA Anti-Money Laundering Oversight Committee ('EAMLOC');
- EMEA European Portfolio Committee ('EPC'); and,
- EMEA Resilience and Resolvability Steering Committee ('ERRSC').

The Committee is empowered under authority delegated by the BNY Mellon SRCC but subject to constraints of both corporate policy and legislation and regulation as appropriate.

### 2.2.4 Business unit risk management

In addition to the entity specific and regional governance bodies, the business conducted through the Company is also subject to oversight by the following committees:

**Treasury Services ('TS') and Corporate Trust ('CT') Business Acceptance Committees ('BAC')**

The TS and CT BACs are responsible for on-boarding new/renewal business into lines of business and subsequently legal entities, including the Company, approving all new clients prior to commencing a relationship with them, and approving all new clients and new business arrangements with existing clients. Risk is assessed and reviewed as part of the approval process.

**Treasury Services ('TS') Business Risk Committee ('BRC')**

The TS BRC is responsible for ensuring that the risk profile of Treasury Services 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 Treasury Services 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.

**EMEA Corporate Trust ('CT') Business Risk Committee ('BRC')**

The EMEA Corporate Trust BRC, consisting of the senior management team of EMEA Corporate Trust, together with the relevant business partners and operations management, provides a forum for the regular review of business performance and key operational and control matters. In performing this role the Committee serves as a checkpoint and a platform for escalation, as well as a forum for discussion of key issues and topics.

**EMEA Treasury Risk Committee ('TRC')**

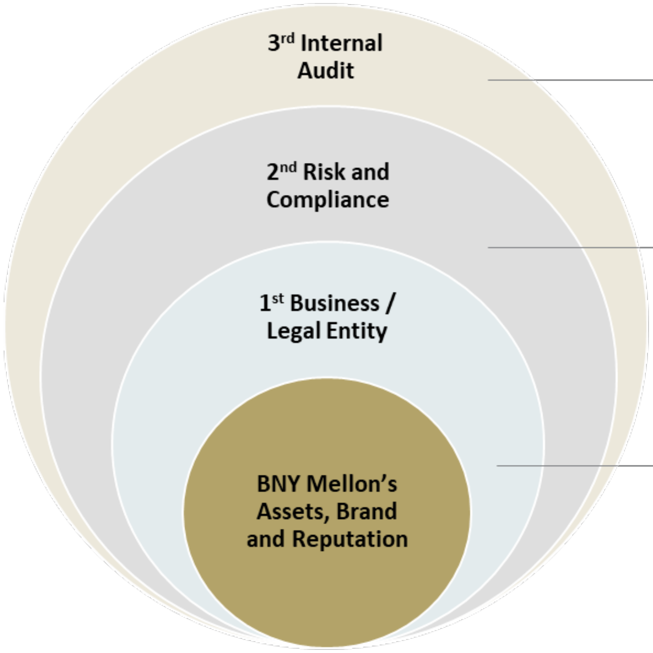
The purpose of the EMEA TRC is to review, assess and approve results and changes to the methodology and assumptions, including but not limited to internal liquidity stress testing and IRRBB metrics, used in activities related to Asset and Liability and Balance Sheet Management. The EMEA TRC is chaired by the EMEA Head of Liquidity Risk.

## 2.3 Risk management framework

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

Risk management develops, maintains and ensures compliance with specific regulations for risk management governance and oversight, risk culture, Risk Management function, Risk Management Framework (including Risk Appetite Statement, risk management policies, risk management procedures), Risk management operating model (including Risk Registers and Management Information) and risk models oversight, in accordance with the BNY Mellon regional model and recognising best market practice to ensure the Company develops a well-controlled environment and an environment where risks are well understood and managed. This model encourages a proactive culture of managing risks across all risk management teams.

**Figure 3: Managing Three Lines of Defense**




- Independent from the first two lines of defence;
- conducts risk-based audits; and,
- reports on the Company's effectiveness in identifying and controlling risks.

- Independent oversight and monitoring;
- consistent corporate level policies and standards;
- reliable and timely enterprise-wide reporting;
- issues escalated in a timely fashion; and,
- includes corporate security, business continuity, financial management and analysis within Finance, HR and Legal.

- Owns risk associated with activities;
- each employee understands and manages the risks inherent in their jobs;
- controls and sound business level policies are in place;
- operate within their 'risk appetite';
- issues escalated in a timely fashion; and,
- includes risks owed primarily by business partners.

The Company's management body adopts a prudent appetite to all elements of risk to which it is exposed. Business activities are managed and controlled in a manner consistent with the Board's stated tolerances using defined quantitative and qualitative measurements.

## 2.4 Risk appetite

The Company aligns within the business and risk strategy to the parent's risk appetite statement as 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 risk appetite statement and the Business and Risk Strategy are reviewed at least annually or when the Company's risk profile changes.

The Company uses a variety of metrics to measure and monitor its risk taking activities relative to its 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. The metrics are actively monitored, managed and mitigated through the monthly Branch management meetings.

## 2.5 Credit risk

The major source of weighted credit risk for the Company is trade financing. The country exposure is actively monitored by the local trade and risk teams. The counterparty risk evaluation and loan limits are centrally managed. All counterparties (clients and banks) are assessed and allocated a borrower rating in accordance with BNY Mellon'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 light of individual circumstances. Post-event monitoring is also conducted by the Credit Risk function, including a respective reporting to Branch Management.

## 2.6 Article 446 CRR II - Operational risk

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

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

To address these risks, the Company maintains comprehensive policies and procedures and an internal control framework designed to provide a sound operational environment. These controls have been designed to manage operational risk at appropriate levels given our financial strength, the business environment and markets in which we operate, the nature of our businesses, and considering factors such as competition and regulation. Our internal auditors and internal control group monitor and test the overall effectiveness of our internal controls and financial reporting systems on an ongoing basis.

The following main tools are used by the Company for operational risk management:

### 2.6.1 Risk and control self-assessment

The Risk and Control Self Assessment ('RCSA') is a tool used by the business to identify risks associated with their key processes. RCSAs are completed by the Business/Business Partner to identify the risks associated with their key business practices. The RCSA policy includes a matrix which is a qualitative guideline to assist the risk owner when assessing inherent risk, quality of controls and residual risk.

### 2.6.2 Key risk indicators

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

### 2.6.3 Operational risk events

A standard for the capture, notification and reporting of Operational Risk Events ('OREs'). The collection of internal loss data provides information for assessing the entity's exposure to Operational Risk. Analysis of loss events provides insight into the root cause and information on whether a control weakness is isolated or potentially more systemic. Information on operational risk event losses or gains exceeding US$10,000 are analysed to understand root cause(s) and to identify improvements needed in order to reduce the recurrence and/or magnitude of future events. All OREs (over US$10,000) are reviewed for root cause and possible mitigating actions are reported to the BMM monthly.

### 2.6.4 Outsourcing risk

Outsourcing is a strategic decision by a company to reduce costs and increase efficiency by hiring a third party to perform business activity that were previously done by employees within the company. Outsourcing risk results from either non-performing, performing with low quality or delayed performing of the transferred business activity or function.

The majority of business activities of the Company are supported by group functions and thus outsourced to inter-affiliates. The Company and the in-sourcing inter-affiliates are governed by the same risk and control framework and global BNYM Third Party Governance-Process, which ensures compliance with the relevant regulations (e.g. EBA Outsourcing Guidelines). The basis of outsourcing oversight is the monthly submission of the appointed Outsourcing Officer of Frankfurt Branch to the Company's Management Forum, providing an overview of all outsourcing relationships, including performance and highlighting relevant key issues or topics.

### 2.7 High-level assessment

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

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

### 2.8 Stress testing

The Company is required to perform standalone stress tests. Stress tests are performed semi-annually for credit risk and annually for operational risk at a Branch level. Further stress testing is performed at a corporation level. Branch management ensures that the Company stays within overall limits as defined by the Group.

### 2.9 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 the Company's management body, 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 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 the Company 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.; and,
- 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.

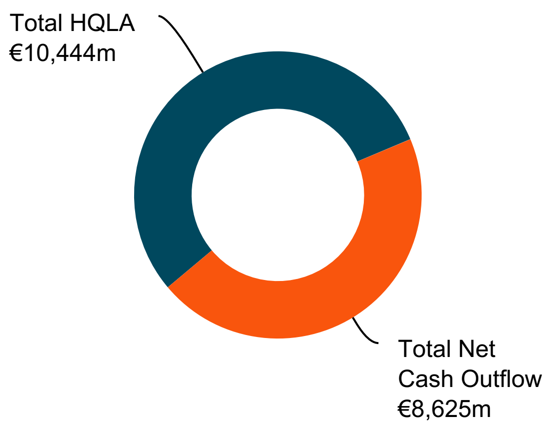
### 2.10 Key Metrics

The Company is required to calculate and report the Liquidity Coverage Ratio ('LCR') from 2018 onwards. During 2021 the Company exceeded the minimum requirement for LCR. High Quality Liquid Assets ('HQLA') and Total Net Cash Outflows ('TNCO') increased during 2021 due to higher EUR deposits from affiliated entities. Further details on LCR and Net Stable Funding Ratio ('NSFR') can be found on the following page.

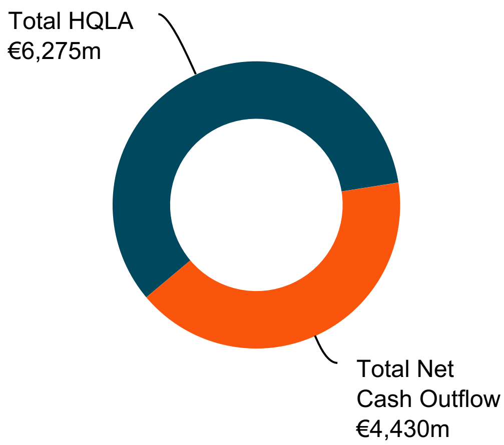
## The Bank of New York Mellon (Frankfurt Branch)

The following risk metrics reflect the Company’s risk profile:

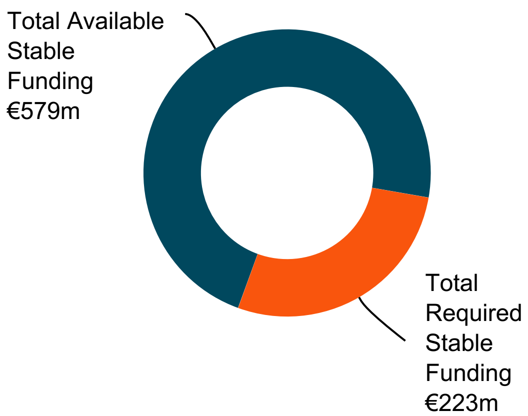
### Liquidity coverage at 31 December 2021 [1]



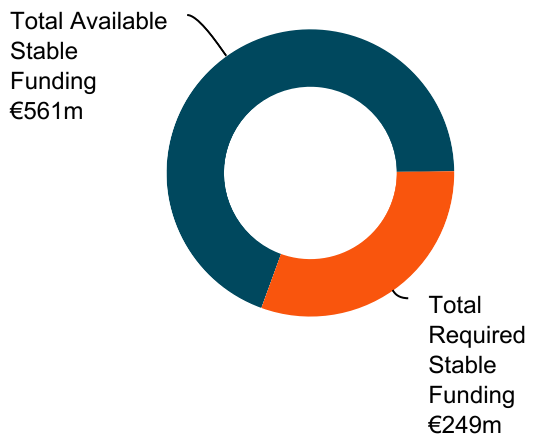

### Liquidity coverage at 31 December 2020 [1]




### Net stable funding at 31 December 2021 [2]

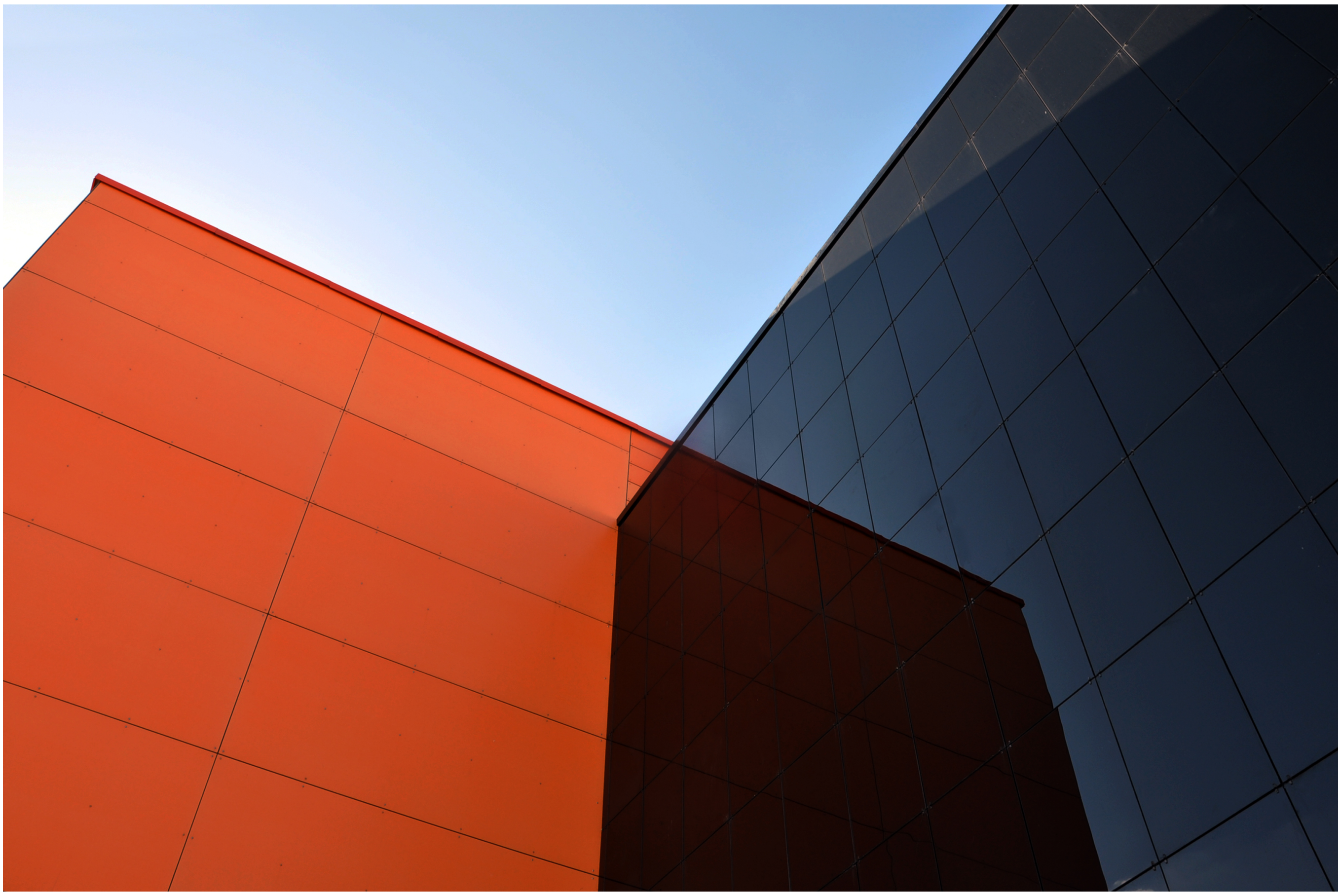



### Net stable funding at 31 December 2020 [2]




| **Liquidity Coverage Ratio ('LCR') (€m) [1]** | **31-Dec-21** | **31-Dec-20** | **31-Dec-19** | **31-Dec-18** | **31-Dec-17** |
|---|---|---|---|---|---|
| Total High Quality Liquid Assets ('HQLA') | 10,444 | 6,275 | 6,505 | 5,453 | 3,446 |
| Total Net Cash Outflow | 8,625 | 4,430 | 4,625 | 4,406 | 3,092 |
| LCR (%) | 121.35 % | 147.68 % | 161.03 % | 126.64 % | 112.01 % |
| **Net Stable Funding Ratio ('NSFR') (€m) [2]** | | | | | |
| Total Available Stable Funding | 579 | 561 | 555 | 417 | 168 |
| Total Required Stable Funding | 223 | 249 | 228 | 180 | 137 |
| NSFR (%) | 259.63 % | 225.30 % | 243.42 % | 231.67 % | 122.63 % |

[1] The Company's LCR is presented using a twelve months average in line with the requirements of Article 451a (2) of CRR II.
[2] The Company's NSFR is presented using point in time values in line with the requirements of Article 451a (3) of CRR II.



# 3 Article 450 CRR II - Remuneration policy

## 3.1 Governance

The Board, via the Company's Branch Management, is responsible for the remuneration policy statement and its application to BNY Mellon. The Board is assisted in its task by:

**EMEA Remuneration Advisory Council ('ERAC')** is a regional governance council that oversees the development and implementation of policies and practices in line with specific regulatory provisions that apply to relevant entities within the EMEA region as well as ensuring consistency with BNY Mellon company principles and compliance with the laws and regulations issued by the relevant states and regulatory authorities.

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

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

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

The Company does not qualify as a significant institution in terms or for the purpose of the German Remuneration Regulation. Its average balance sheet value during the previous four fiscal years remains below the EUR 15 billion threshold. Also, the national regulator ('BaFin') has not determined the Company to be significant. Furthermore, the Company does not qualify as a 'qualified non-significant institution' according to Sec. 1(3) s.2 of the Remuneration Regulations for Institutions – Institutsvergütungsverordnung ('IVV'), since the Company does not fulfil any of the case groups under Sec. 1(3) s.2 IVV. Consequently, the Company is not subject to the additional requirements of the German Remuneration Regulation, including deferral and clawback of variable remuneration as well as taking into account the success of the institution or group as a whole and the contribution of the individual employee and its business unit.

The above committees met a total of twelve times during the year.

## 3.2 Aligning pay with performance

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

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

For members of staff in control functions who, because of their job role, may have a material impact on the risk profile of the Company and, consequently, are identified as risk takers, the maximum ratio of variable pay to fixed pay will be 100%. Variable compensation plans are designed to reward performance at the corporate, business line (where relevant) and individual level. The performance management program ('PMP') of the Company includes corporate goals (on Compliance & Ethics, Risk Management and Inclusion), individual results based performance and individual behaviours. An employee's performance is assessed against all these objectives. Selected individuals may also be assessed against climate and/or environmental goals. Risk outcomes identified in the PMP that result in a negative impact to the Company are being considered when the incentive compensation of an employee is being determined. Negative contributions result in incentive adjustments or, depending on the scope of the impact, can even result in a zero incentive.

## 3.3 Reference to German remuneration report ("Verguetungsbericht")

For further details regarding the remuneration policy applied at the Company and applicable quantitative metrics please refer to the Company's Remuneration Policy Statement and the German Remuneration Report as disclosed on the German website of ***BNY Mellon in Deutschland*** according to the regulations as stipulated in the Institutsverguetungsverordnung.

## Appendix 1 Glossary of terms

The following acronyms are a range of terms which may be used in BNY Mellon EMEA Pillar 3 disclosures:

| Acronym | Description |
|---|---|
| ABS | Asset-Backed Securities |
| ACPR | Autorite de Controle Prudentiel et de Resolution |
| AFR | Available Financial Resources |
| AIF | Alternative Investment Fund |
| ALCO | Asset and Liability Committee |
| AML | Anti-Money Laundering |
| AS | Asset Servicing |
| AT1 | Additional Tier 1 |
| AUC | Assets Under Custody |
| BAC | Business Acceptance Committee |
| BAU | Business as usual |
| BaFin | Federal Financial Supervisory Authority / Bundesanstalt fur Finanzdienstleistungsaufsicht |
| BDAS | Broker-Dealer and Advisory Services |
| BDF | Banque De France |
| BEMCO | Belgium Management Council |
| BI | Banca D'Italia |
| BNY Mellon | The Bank of New York Mellon Corporation |
| BNY Mellon SA/NV | The Bank of New York Mellon SA/NV |
| BNY Mellon TDUKL | BNY Mellon Trust & Depositary (UK) Limited |
| BNYIFC | BNY International Financing Corporation |
| BNY Mellon KG | BNY Mellon Service Kapitalanlage-Gesellschaft mbH |
| BRC | Business Risk Committee |
| CASS | Client Asset Sourcebook Rules |
| CBI | Central Bank of Ireland |
| CCF | Credit Conversion Factor |
| CEO | Chief Executive Officer |
| CEF | Critical Economic Function |
| CET1 | Common Equity Tier 1 |
| CGB | CASS Governance Body |

| Acronym | Description |
|---|---|
| CIS | Collective Investment Scheme |
| CMA | Capital Market Authority |
| COC | Compensation Oversight Committee |
| COOC | CASS Operational Oversight Committee |
| COREP | Common Reporting |
| CQS | Credit Quality Steps |
| CRD | Capital Requirements Directive |
| CRM | Credit Risk Mitigation |
| CROC | Credit Risk Oversight Committee |
| CRR | Capital Requirements Regulation |
| CSD | Client Service Delivery |
| CSRSFI | Committee for Systemic Risks and System-relevant Financial Institutions |
| CSSF | Commission de Surveillance du Secteur Financier |
| CSTC | Capital and Stress Testing Committee |
| CT | Corporate Trust |
| CTS | Client Technology Solutions |
| DB | Deutsche Bank |
| DNB | De Nederlandsche Bank |
| DVP | Delivery versus Payment |
| EAD | Exposure at default |
| EC | European Commission |
| ECL | Expected Credit Losses |
| ECAP | Economic Capital |
| ECB | European Central Bank |
| ECM | Embedded Control Management |
| EEC | EMEA Executive Committee |
| EHQLA | Extremely High Quality Liquid Assets |
| EMEA | Europe, Middle East and Africa |
| ERGC | EMEA Remuneration Governance Committee |
| ESRMC | EMEA Senior Risk Management Committee |
| EU | European Union |
| EUR | Euro |

| Acronym | Description |
|---|---|
| EWI | Early Warning Indicators |
| ExCo | Executive Committee |
| FCA | Financial Conduct Authority |
| FMUs | Financial market utilities |
| FRS | Financial Reporting Standard |
| FSMA | Financial Services and Markets Authority |
| FX | Foreign Exchange |
| G-SIFI | Global Systemically Important Financial Institution |
| GCA | Global Custody Agreement |
| GSP | Global Securities Processing |
| HLA | High-level Assessment |
| HQLA | High Quality Liquid Assets |
| HRCC | Human Resources Compensation Committee |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| ICA | Internal Capital Assessment |
| ICAAP | Internal Capital Adequacy Assessment Process |
| ICRC | Incentive Compensation Review Committee |
| IFRS | International Financial Reporting Standards |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| ILG | Individual Liquidity Guidance |
| IRRBB | Interest Rate Risk on Banking Book |
| IMMS | International Money Management System |
| ISDA | International Swaps and Derivatives Association |
| ISM | Investment Services and Markets |
| IT | Information Technology |
| KRI | Key Risk Indicator |
| KYC | Know your customer |
| LCR | Liquidity Coverage Ratio |
| LERO | Legal Entity Risk Officer |
| LOB | Line of Business |
| LOD | Line of Defense |

| Acronym | Description |
|---|---|
| MiFID II | Markets in Financial Instruments Directive II |
| MNA | Master Netting Agreements |
| MRMG | Model Risk Management Group |
| MRT | Material Risk Taker |
| NAV | Net Asset Value |
| NBB | National Bank of Belgium |
| NomCo | Nomination Committee |
| NSFR | Net Stable Funding Ratio |
| O-SII | Other systemically important institution |
| OCI | Other Comprehensive Income |
| OEICs | Open-ended Investment Companies |
| ORMF | Operational Risk Management Framework |
| ORSA | Operational Risk Scenario Analysis |
| P/L | Profit and Loss |
| PFE | Potential Future Exposure |
| PRA | Prudential Regulatory Authority |
| RCoB | Risk Committee of the Board |
| RCSA | Risk and Control Self-Assessment |
| RM | Risk Manager |
| RMC | Risk Management Committee |
| RMP | Risk Management Platform |
| RRP | Recovery and Resolution Planning |
| RW | Risk-weight |
| RWA | Risk Weighted Assets |
| SA | Standardised Approach |
| SFT | Security Financing Transaction |
| SLD | Service Level Description |
| SREP | Supervisory review and evaluation process |
| SRO | Senior Risk Officer |
| T&D | Trust & Depositary |
| T1 / T2 | Tier 1 / Tier 2 |
| TCR | Total Capital Requirements |
| TRC | Technology Risk Committee |
| TLAC | Total Loss-Absorbing Capacity |
| UCITS | Undertakings for Collective Investment in Transferable Securities |
| VaR | Value-at-Risk |

The following terms may be used in this document:

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

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

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

**CRD V:** 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 package. 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. The latest iteration, CRD V & CRR II, applies from 28 June 2021 onwards, with certain requirements set to be phased in

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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