



The Bank of New York Mellon Corporation

*Frankfurt Branch*

# Pillar 3 Disclosure

December 31, 2022

**Executive summary**

<b>1</b>	<b>Article 431 CRR II - Disclosure requirements and policies</b>	<b>3</b>
1.1	Disclosure policy	3
1.2	The Basel III framework	4
1.3	Purpose of Pillar 3	4
1.4	Article 432 CRR II - Non-material, proprietary or confidential information	5
1.5	Article 433/434 CRR II - Frequency, scope and means of disclosure	5
1.6	Governance: approval and publication	6
1.7	Key 2022 and subsequent events	6
1.8	Scope of consolidation	6
1.9	Core business lines	8
1.10	Article 437 CRR II - Own funds	8

**Risk**

<b>2</b>	<b>Article 435 CRR II - Risk management objectives and policies</b>	<b>9</b>
2.1	Board of directors of the parent company	10
2.2	Risk governance	10
2.2.1	Branch management	10
2.3	Risk management framework	11
2.4	Risk Identification ('RiskID')	12
2.5	Risk appetite	12
2.6	Credit risk	12
2.7	Operational risk	12
2.7.1	Risk and control self-assessment	13
2.7.2	Key risk indicators	13
2.7.3	Operational Risk Events ('ORE')	13
2.7.4	Outsourcing risk	13
2.8	Stress testing	13
2.9	Escalation of risks and issues	13
2.10	Key Metrics	14
	Table 1: Key Metrics	14

**Human resources**

<b>3</b>	<b>Article 450 CRR II - Remuneration policy</b>	<b>15</b>
3.1	Governance	15
3.2	Aligning pay with performance	16
3.3	Reference to German remuneration report ("Verguetungsbericht")	16

**Appendices**

<b>Appendix 1</b>	<b>Glossary of terms</b>	<b>17</b>
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## **Attestation Statement**

I confirm that the 31 December 2022 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 Body (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 21 April 2023.

Dennis Patrikios  
Branch Manager  
Member of Frankfurt Branch Management



## 1 Article 431 CRR II - Disclosure requirements and policies

### 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<sup>1</sup> ('CRD V'), the Capital Requirements Regulation<sup>2</sup> ('CRR II') and in conjunction with §26a and §53 Kreditwesengesetz<sup>3</sup>.

The disclosures cover the Company as at 31 December 2022.

Further, the disclosures were approved by Branch Management on 21 April 2023

<sup>1</sup> 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.

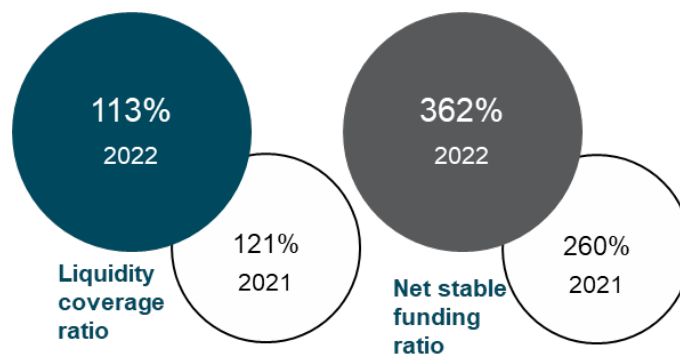
<sup>2</sup> Regulation (EU) No 2019/876 on prudential requirements for credit institutions and investment firms amending Regulation (EU) No 575/2013, 20 May 2019.

<sup>3</sup> <http://www.gesetze-im-internet.de/kredwlg/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:



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 and include the following key metrics. Please see Table 1: Key Metrics for 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 remuneration of material risk takers.

Wherever possible and relevant, consistency has been ensured between The Bank of New York Mellon ("BNY Mellon") Pillar 3 disclosures, applicable Pillar 1 reporting and Pillar 2 ICAAP ('Internal Capital Adequacy Assessment Process') content e.g. 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 risk management objectives and policies for each of the following categories of risk material 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 the risk management practices of the Company and its risk profile.

In accordance with §1 FreistVO and §53c KWG, the Company is not required to apply Articles 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 into the parent entity's own funds plan and ICAAP. For further details please see the 2022 annual report and the Pillar 3 disclosure of the BNY Mellon Corporation available at:

[BNY Mellon Investor Relations](#)

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

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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 this is classified as proprietary or 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, scope and means of disclosure

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Pillar 3 disclosures are approved by the Company's Branch Management, which has verified that they are consistent with formal policies adopted regarding production and validation.

Unless indicated otherwise, information contained within the Pillar 3 disclosure has not been subject to external audit.

Disclosure will be made in accordance with the requirements of Article 433(c). Annual disclosures will be published on the same date on which the Annual Report and Financial Statements are made public. 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.

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 the Additional Country Disclosures section.

Pillar 3 disclosures are prepared solely to meet Pillar 3 disclosure requirements 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.

## 1.6 Governance: approval and publication

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Pursuant to the BNY Mellon EMEA Pillar 3 Disclosure Standard, these disclosures were approved for publication by the Company's Branch Management on 21 April 2023. 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 2022 and subsequent events

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It has been a year of unprecedented volatility. Inflation at a 40-year high and the fastest Fed interest rate hiking cycle since 1980 resulted in negative returns for most asset classes.

Russia's invasion of Ukraine and China's zero-Covid policy added to already elevated inflationary pressure and contributed to slowing economic activity.

To slow inflation, the ECB raised its deposit facility interest rates to 2.0% before year-end 2022. The US Federal Reserve raised their federal funds rate seven times in 2022 taking it to a range of 4.25% and 4.5%. Bank of England and other central Banks made similar rate hikes.

In this context, we 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 to medium term financial shock which may impact the Company's business and that the Company is a low risk institution for our clients and regulators.

## 1.8 Scope of consolidation

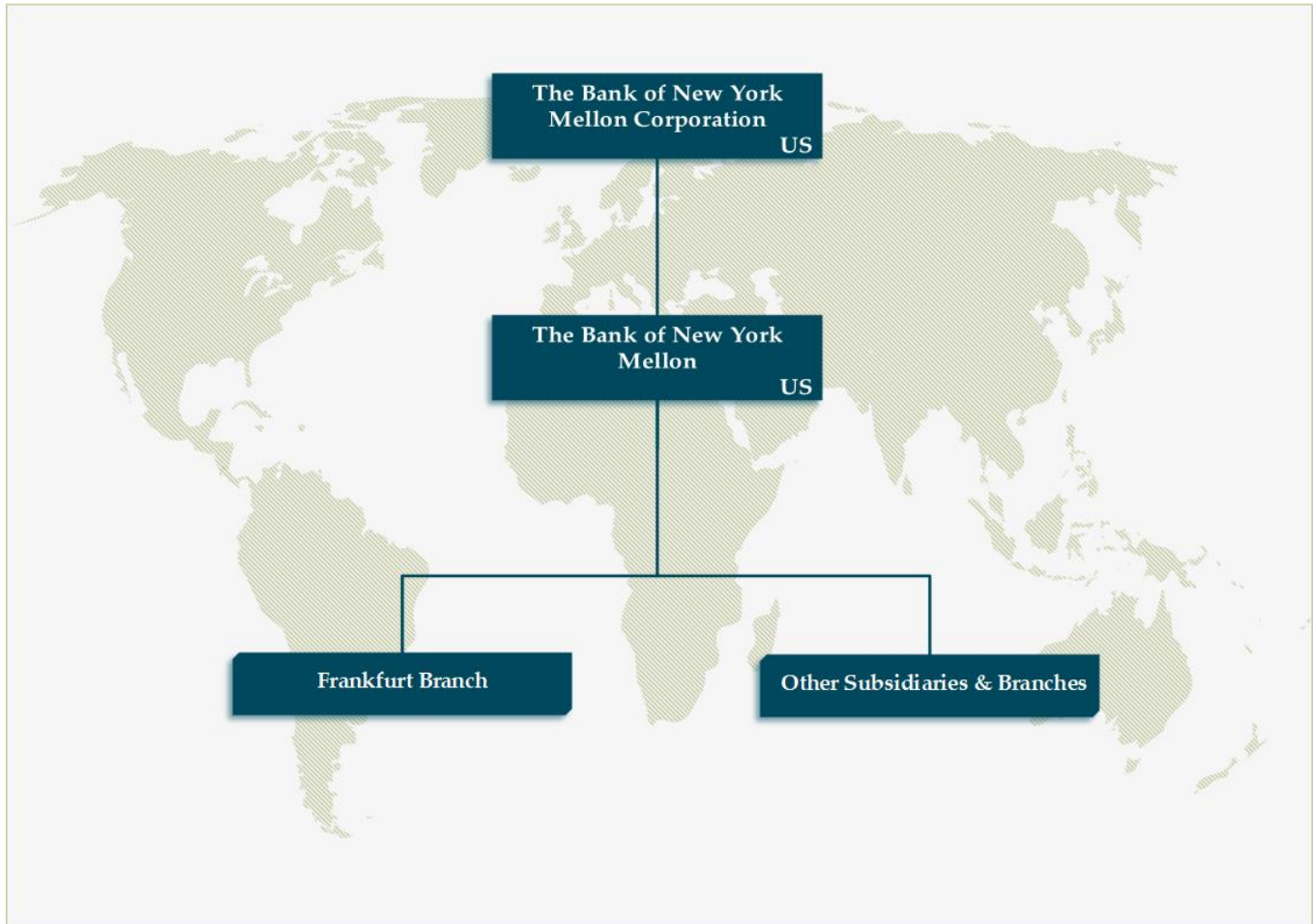
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The Company is a legally dependent branch of The Bank of New York Mellon, a New York banking corporation with trust powers, having its principal office in New York, which is itself a subsidiary of The Bank of New York Mellon Corporation, the ultimate parent company of the BNY Mellon Group.

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 2022, BNY Mellon had \$44.3 trillion in assets under custody and/or administration, and \$1.8 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](http://www.bnymellon.com). Follow us on Twitter [@BNYMellon](https://twitter.com/BNYMellon) or visit our newsroom at [www.bnymellon.com/newsroom](http://www.bnymellon.com/newsroom) for the latest company news

The corporate structure of the Company as at 31 December 2022 is illustrated in Figure 1 on the following page.

➤ 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. 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. BNY Mellon SA/NV ('the European bank') is guided as the main booking entity (where possible) for EU domiciled clients. 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. BNY Mellon's 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.

## 1.9 Core business lines

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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;
- corporate trust agency functions; and,
- client deposits.

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

## 1.10 Article 437 CRR II - Own funds

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For regulatory purposes the own funds of the parent (BNY Mellon Corporation) is used. The parent's total capital as at 31 December 2022 under the Advanced Approach was: US\$24,143 million (2021: US\$24,722 million<sup>1</sup>). Further details can be found in the Pillar 3 disclosure of the parent, available at:

[BNY Mellon Investor Relations - Quarterly Financial Highlights](#)

At 31 December 2022 the Company's capital consists of €5.1 million (2021: €5.1 million) endowment capital.

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<sup>1</sup> Restated from US\$ 24,711 in 2021's disclosure.



## 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, continue to deliver operational excellence and maintain an uninterrupted service. Therefore, the Company and BNY Mellon Corporation as a whole, are committed to maintaining a strong balance sheet and, as a strategic position, assumes less risk than many financial services companies.

Whilst BNY Mellon assumes less balance sheet risk than most financial services companies, it does exhibit other types of risks as a result of its business model. 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 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 into 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 the parent company

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The main duty and responsibility of the Board is to approve the business and risk strategy of BNY Mellon. 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

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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

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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;
- ensuring adequate oversight and control over any outsourcing arrangements; and,
- overall oversight of risk management within the Company.

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

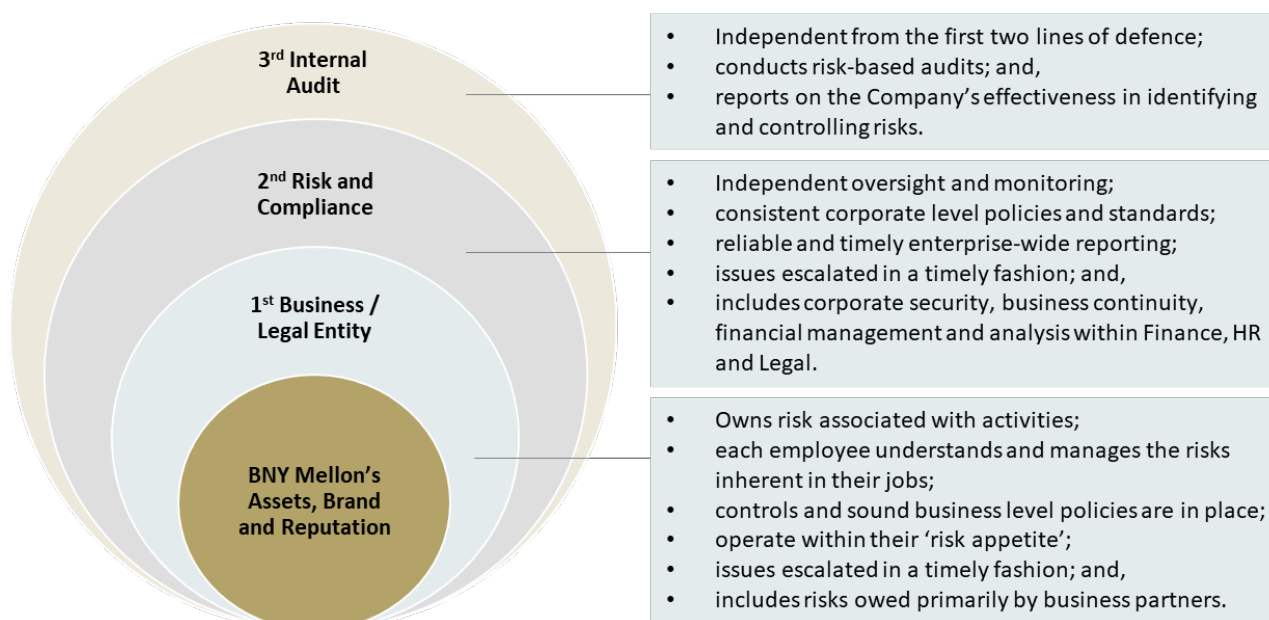
BNY Mellon has a commitment to diversity and inclusion. This commitment is not only important to BNY Mellon culture and to each director as individuals, it is also critical to BNY Mellon ability to serve its clients and grow its business. BNY Mellon recognises the benefits of having individuals with 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.

### 2.3 Risk management framework

In line with the enterprise risk management framework policy, the Company has adopted the 'Three Lines of Defence' model in deploying its risk management framework. The first line of defence ('1LOD') is the business or, in some cases, Corporate Function level. The business owns the risk associated with activities and manages the risks and the related control processes and procedures. The Risk Management and Compliance functions are the second line of defence ('2LOD') and own the Group-wide risk management and compliance frameworks and provide independent oversight of the 1LOD, ensuring that the 1LOD understand and manage their risks through application of all elements of the frameworks and policies. The third line of defence ('3LOD') is Internal Audit, which independently provides the Company's Branch 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 2: Managing the Three Lines of Defence**



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 Identification ('RiskID')

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The Company performs a risk identification assessment and review to summarize the risk profile of the Company through the key risk categories. The assessment is a core requirement and represents the approach through which the Company identifies risk in order to monitor and manage the risk profile. Given the scope of the business, the Company recognises credit and operational risks as the most significant risks. The Company's risk identification considers various factors which includes risk management data that analyses the risk profile of the Company, quality of controls in place to mitigate risks, internal and external factors and subject matter expertise.

## 2.5 Risk appetite

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The Company aligns 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 within its resource capacity. 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 parent entity's 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.

## 2.6 Credit risk

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The branch incurs credit default risks on the one hand from the cash balances with central banks and with individual inter-affiliates and, on the other hand, short-term trade finance business and letter of credit business, which is provided on a unsecured basis or secured with cash collateral. The strategy of the branch is geared towards lending business with considerable credit institutions in emerging markets and selected OECD countries. The term of the loans is usually less than 360 days. As of December 2022, the loan portfolio consisted mainly of exposures with customers based in the Middle East. Concentration on the industry and the individual regions is the bank's business model and thus an immanent component.

The Bank addresses geopolitical risks in these regions through ongoing monitoring and if necessary, by adjusting the country limits and ratings, limiting credit to a very selective group of borrowers (mainly only with systemically important banks) and through risk mitigation in the form of cash deposits where deemed necessary. 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.

## 2.7 Operational risk

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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).

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 the Company's financial strength, the business environment and markets in which it operates, the nature of the Company's businesses, and considering factors such as competition and regulation. The Company's internal auditors and internal control group monitor and test the overall effectiveness of its internal controls and financial reporting systems on an ongoing basis.

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

### **2.7.1 Risk and control self-assessment**

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The Risk and Control Self Assessment ('RCSA') is a tool used by the business to identify risks associated with its key processes and is completed by the business or its business partner. 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.

### **2.7.2 Key risk indicators**

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Key risk indicators ('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.

### **2.7.3 Operational Risk Events ('ORE')**

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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.

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.

### **2.7.4 Outsourcing risk**

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Outsourcing is a strategic decision by a company to reduce costs and increase efficiency by contracting 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.

## **2.8 Stress testing**

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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**

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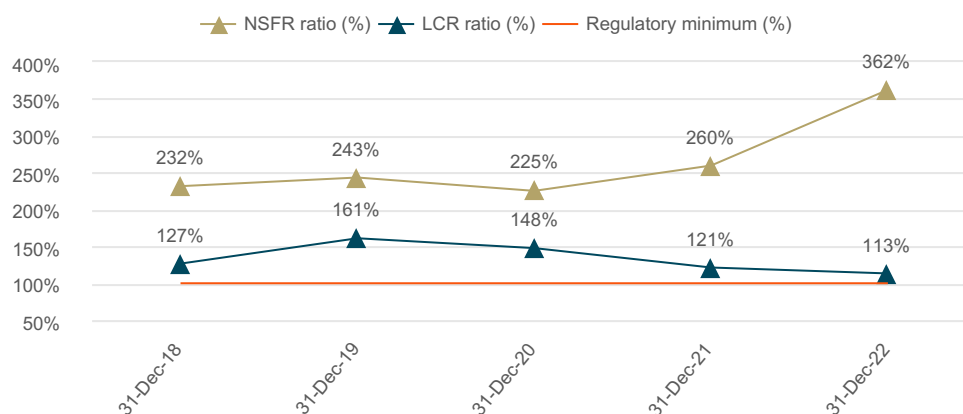
A robust framework exists for monitoring and escalation of issues and risks. If a material risk issue occurs, the EMEA Governance Guide for reporting and escalation of material issues and risks is followed. Business management is required to notify senior management, which includes the Company's management body, soon after determination. Risk management is responsible for supporting the business lines in achieving the following objectives listed on the next page:

- 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 disclose the Liquidity Coverage Ratio ('LCR') on a trailing 12 month average basis in accordance with the requirements of Article 447 (f) of CRR II. During 2022 the Company exceeded the minimum requirement for LCR. Overall, High Quality Liquid Assets ('HQLA') rose by a moderate 6% largely due to balance sheet management activities, however the positive impact on LCR was limited due to a relatively higher 14% increase in Total Net Cash Outflows ('TNCO'). This mainly arose from higher outflows stemming from EUR deposits by affiliated entities. Further details on LCR and Net Stable Funding Ratio ('NSFR') can be found below. These risk metrics reflect the Company's risk profile



 **Table 1: Key Metrics**

<b>(€m)</b>			
<b>Liquidity Coverage Ratio <sup>1</sup></b>			
		<b>31-Dec-22</b>	<b>31-Dec-21</b>
15	Total high-quality liquid assets (weighted value - average)	11,111	10,444
EU 16a	Cash outflows - Total weighted value	9,953	8,809
EU 16b	Cash inflows - Total weighted value	120	184
16	Total net cash outflows (adjusted value)	9,833	8,625
17	Liquidity coverage ratio (%)	113.32 %	121.35 %
<b>Net Stable Funding Ratio <sup>2</sup></b>			
18	Total available stable funding	619	579
19	Total required stable funding	171	223
20	NSFR ratio (%)	362.35 %	259.63 %

<sup>1</sup> The Company's LCR is presented using a twelve months average in line with the requirements of Article 451a (2) of CRR II.

<sup>2</sup> 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 EMEA entities as well as ensuring consistency with BNY Mellon's 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 BNY Mellon's Board, acting on behalf of the BNY Mellon Board.

**Compensation Oversight Committee of BNY Mellon ('COC')** is responsible for overseeing all incentive plans and regulatory matters related to company incentive plans and 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 who has directly or indirectly contributed to a financial restatement or other irregularity. The ICRC is a management-level committee that reports its recommendations to the HRCC. Ex-ante adjustments are recommended by the employee's management for review and approval by the committee and ex-post adjustments are formulated by the committee. The Chief Human Resources Officer chairs the committee supported by the Global Head of Compensation and Benefits. Voting members include the 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 held meetings of different frequencies during the year, for a collective total of fourteen times.

### 3.2 Aligning pay with performance

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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")

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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	Acronym	Description
ABS	Asset-Backed Securities	CSRSFI	Committee for Systemic Risks and System-relevant Financial Institutions
ACPR	Autorite de Controle Prudentiel et de Resolution	CSSF	Commission de Surveillance du Secteur Financier
AFR	Available Financial Resources	CSTC	Capital and Stress Testing Committee
AIF	Alternative Investment Fund	CT	Corporate Trust
ALCO	Asset and Liability Committee	CTS	Client Technology Solutions
AML	Anti-Money Laundering	DB	Deutsche Bank
AS	Asset Servicing	DNB	De Nederlandsche Bank
AT1	Additional Tier 1	DVP	Delivery versus Payment
AUC	Assets Under Custody	EAD	Exposure at default
BAC	Business Acceptance Committee	EC	European Commission
BAU	Business as usual	ECL	Expected Credit Losses
BaFin	Federal Financial Supervisory Authority / Bundesanstalt für Finanzdienstleistungsaufsicht	ECAP	Economic Capital
BDAS	Broker-Dealer and Advisory Services	ECB	European Central Bank
BDF	Banque De France	ECM	Embedded Control Management
BEMCO	Belgium Management Council	EEC	EMEA Executive Committee
BI	Banca D'Italia	EHQLA	Extremely High Quality Liquid Assets
BNY Mellon	The Bank of New York Mellon Corporation	EMEA	Europe, Middle East and Africa
BNY Mellon	The Bank of New York Mellon	ERGC	EMEA Remuneration Governance Committee
SA/NV	SA/NV	ESRMC	EMEA Senior Risk Management Committee
BNY Mellon	BNY Mellon Trust & Depository	EU	European Union
TDUKL	(UK) Limited	EUR	Euro
BNYIFC	BNY International Financing Corporation	EWI	Early Warning Indicators
BNY Mellon	BNY Mellon Service	ExCo	Executive Committee
KG	Kapitalanlage-Gesellschaft mbH	FCA	Financial Conduct Authority
BRC	Business Risk Committee	FMUs	Financial market utilities
CASS	Client Asset Sourcebook Rules	FRS	Financial Reporting Standard
CBI	Central Bank of Ireland	FSMA	Financial Services and Markets Authority
CCF	Credit Conversion Factor	FX	Foreign Exchange
CEO	Chief Executive Officer	G-SIFI	Global Systemically Important Financial Institution
CEF	Critical Economic Function	GCA	Global Custody Agreement
CET1	Common Equity Tier 1	GSP	Global Securities Processing
CGB	CASS Governance Body	HLA	High-level Assessment
CIS	Collective Investment Scheme	HQLA	High Quality Liquid Assets
CMA	Capital Market Authority	HRCC	Human Resources Compensation Committee
COC	Compensation Oversight Committee	IAS	International Accounting Standards
COOC	CASS Operational Oversight Committee	IASB	International Accounting Standards Board
COREP	Common Reporting	ICA	Internal Capital Assessment
CQS	Credit Quality Steps	ICAAP	Internal Capital Adequacy Assessment Process
CRD	Capital Requirements Directive	ICRC	Incentive Compensation Review Committee
CRM	Credit Risk Mitigation	IFRS	International Financial Reporting Standards
CROC	Credit Risk Oversight Committee	ILAAP	Internal Liquidity Adequacy Assessment Process
CRR	Capital Requirements Regulation	ILG	Individual Liquidity Guidance
CSD	Client Service Delivery	IRRBB	Interest Rate Risk on Banking Book

Acronym	Description
IMMS	International Money Management System
ISDA	International Swaps and Derivatives Association
ISM	Investment Services and Markets
IT	Information Technology
KRI	Key Risk Indicator
KYC	Know your customer
LCR	Liquidity Coverage Ratio
LERO	Legal Entity Risk Officer
LOB	Line of Business
LOD	Line of Defense
MiFID II	Markets in Financial Instruments Directive II
MNA	Master Netting Agreements
MRMG	Model Risk Management Group
MRT	Material Risk Taker
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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