



BNY MELLON

THE BANK OF NEW YORK MELLON
Frankfurt Branch

Pillar 3 Disclosure

December 31, 2017

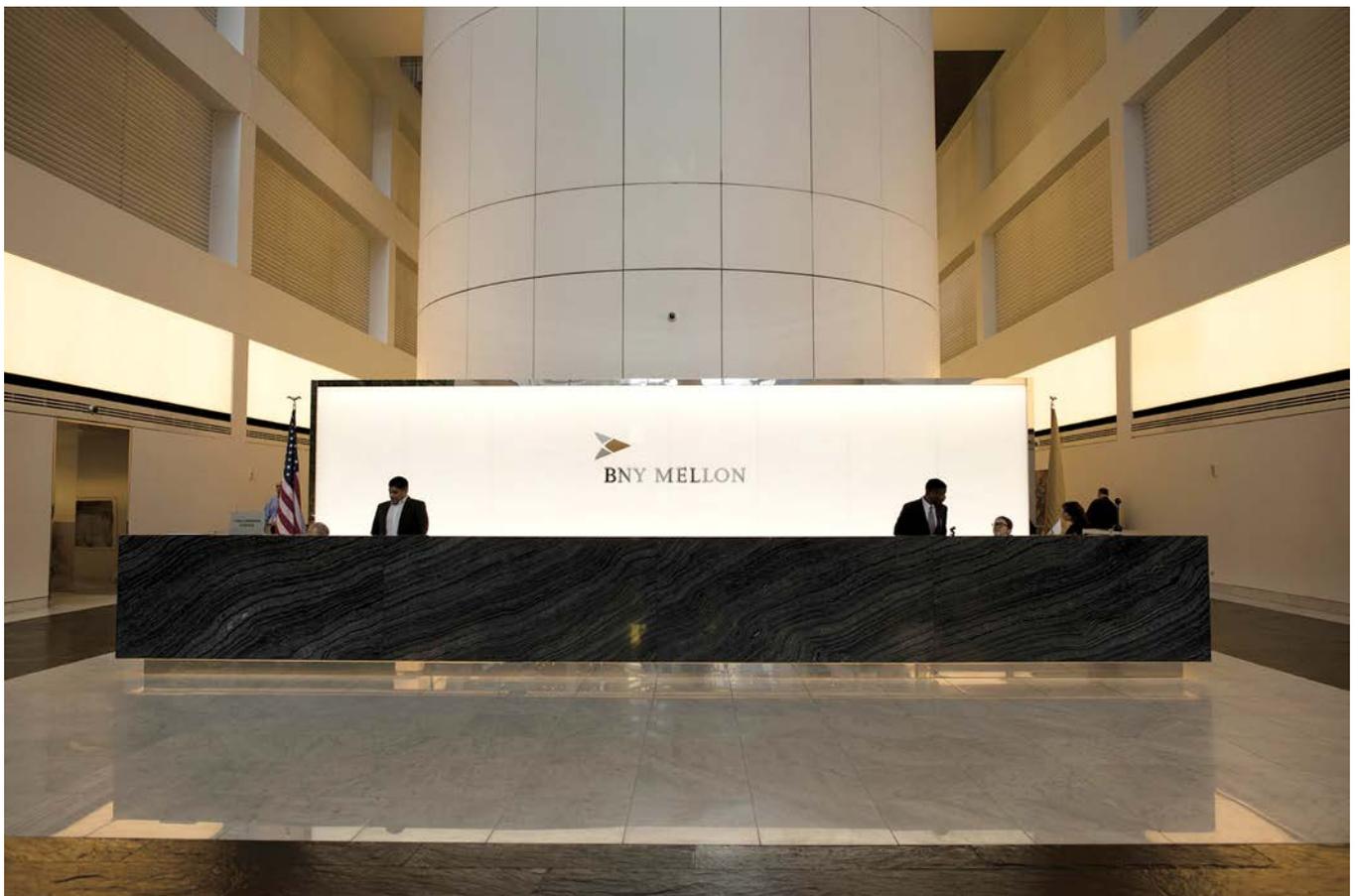
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Any discrepancies between the totals and sums of components within the tables and graphs within this report are due to rounding.



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1 Scope of Application

1.1 Disclosure Policy

The following risk metrics present BNYM Frankfurt Branch's key risk components as at 31 December 2017. Please see page 19 for the further details.

Liquidity Coverage Ratio **127.9%**

2016: 107.6%

Net Stable Funding Ratio **122.3%**

2016: 137.8%

This document comprises The Bank of New York Mellon Frankfurt Branch ("BNYM Frankfurt Branch") Pillar 3 disclosures on capital and risk management at 31 December 2017. These disclosures are published in accordance with the requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to together as CRD IV, which came into effect on 1 January 2014. CRD IV has the effect of implementing the international Basel III reforms of the Basel Committee on Banking Supervision within the European Union. The Pillar 3 disclosure requirements are contained in Part Eight of the CRR, in particular articles 431 to 455, which in conjunction with §26a and §53 Kreditwesengesetz (KWG) defines the disclosure requirements for BNYM Frankfurt Branch.

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

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

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

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

BNYM Frankfurt Branch 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.

1.2 The Basel III Framework

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

Pillar 1 - Minimum capital requirement:

Establishes rules for the calculation of minimum capital for credit risk, market risk, operational risk and capital resource 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, its 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 content e.g. disclosures concerning risk management practices and capital resources at the year end.

1.3 Purpose of Pillar 3

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

- **Credit:** The risk of loss if any of our borrowers or other counterparties were to default on their obligations to us. Credit risk is resident in the majority of our assets, but primarily concentrated in the loan and securities books, as well as off-balance sheet exposures such as lending commitments, letters of credit ("L/C"), 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, and litigation risk
- **Market:** The risk of loss due to adverse changes in the financial markets. Our market risks are primarily interest rate, foreign exchange ("FX") and equity risk. Market risk particularly impacts our exposures that are fair valued such as the securities portfolio, trading book, and equity investments
- **Liquidity:** The risk that BNY Mellon cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flows, without adversely affecting daily operations or financial conditions. Liquidity risk can arise from cash flow mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events

These Pillar 3 disclosures only focus on those risk and exposure types relevant to BNYM Frankfurt Branch.

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

1.4 Non-material, Proprietary or Confidential Information

In accordance with CRD IV, the branch management of BNYM Frankfurt Branch may omit one or more disclosures if the information provided is not regarded as material. The criteria for materiality used in these disclosures is that BNYM Frankfurt Branch 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 BNYM Frankfurt Branch will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure. In addition it will publish more general information about the subject matter of the disclosure requirement except where these are to be classified as confidential.

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

1.5 Frequency and Means of Disclosure

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

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

Disclosures will be made annually and will be published on BNY Mellon Group website, as well as on BNYM Frankfurt Branch website:

[BNY Mellon Pillar 3 Disclosures](#)

[BNY Mellon in Deutschland](#)

1.6 Branch Management Approval

These disclosures were approved for publication by BNYM Frankfurt Branch's branch management on 21 June 2018. 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 Own Funds

At 31 December 2017 BNYM Frankfurt Branch capital consists of €5,113M (2016: €5,113M) endowment capital.

In accordance with §1 FreistVO and §53c KWG, BNYM Frankfurt Branch is not required to apply Article 11 - 386 CRR.

For regulatory purposes the own funds of the parent (BNY Mellon Corporation) is used. The parent's total capital as at 31 December 2017 was: €18,853M (2016: €18,889M). Further details can be found in the Pillar 3 disclosure of the parent, available at:

[BNY Mellon Pillar 3 Disclosures](#)

In accordance to BaFin circular published on 17 February 2016 BNYM Frankfurt Branch as a branch per §53c KWG is not required to calculate or disclose Basel III leverage ratio. Furthermore BNYM Frankfurt Branch also received a derogation from BaFin regarding the need to create a local risk bearing capacity concept as the BNYM Frankfurt 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 BNYM Frankfurt Branch is not obligated to have a standalone own funds plan and to perform a standalone ICAAP, as BNYM Frankfurt Branch is integrated in the parents entity own funds plan and ICAAP. For further details please see the 2017 annual report and the Pillar 3 disclosure of BNY Mellon Corporation available at:

[BNY Mellon Investor Relations](#)

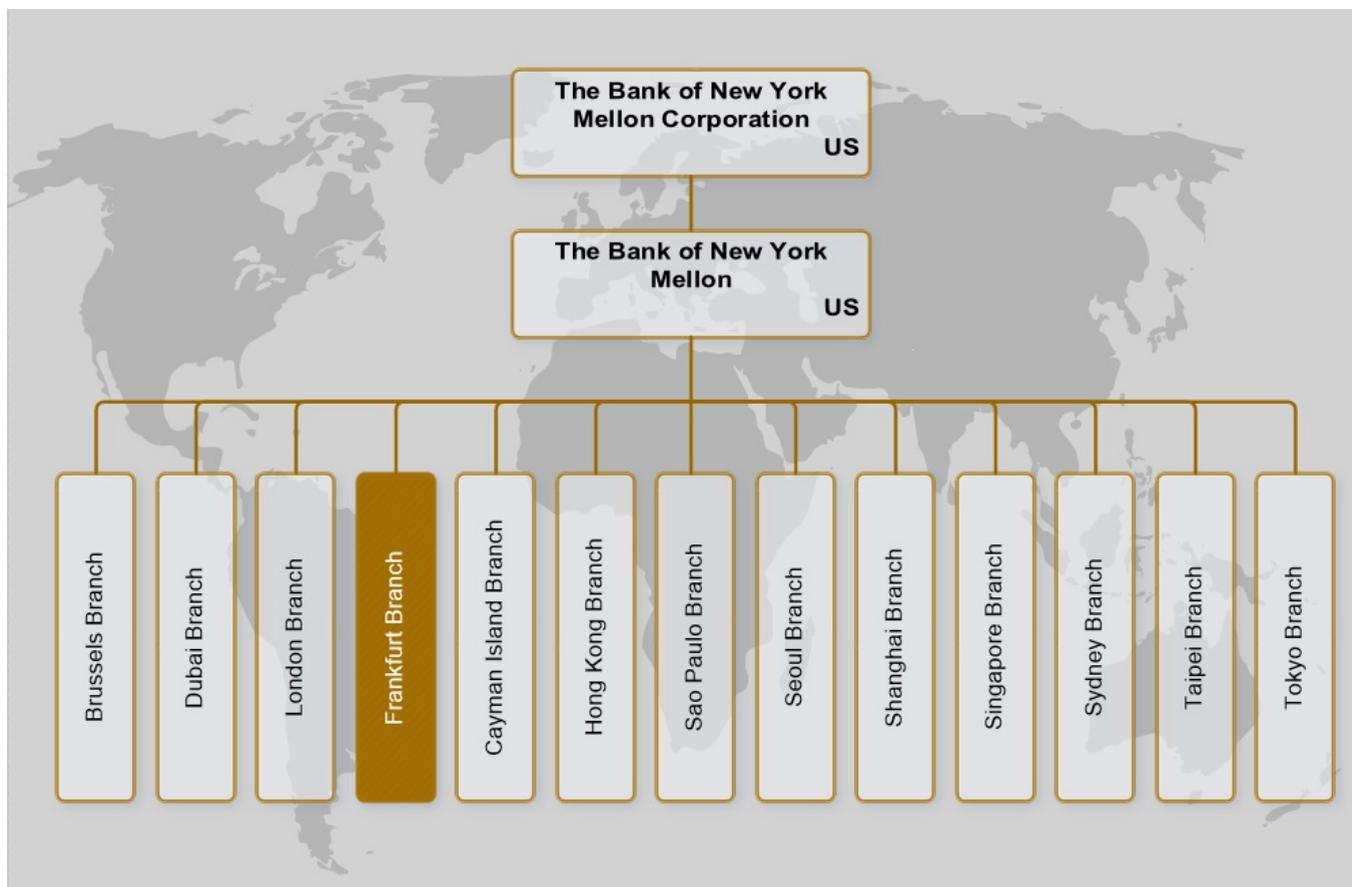
1.8 Company Description

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 2017, BNY Mellon had \$33.3 trillion in assets under custody and/or administration ("AUC/A"), and \$1.9 trillion in assets under management ("AUM"). In 2017, the Company delivered 18% growth in earnings per share and increased the return on common equity to nearly 11% year-over-year. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

BNYM Frankfurt Branch is a legally dependent branch of BNY Mellon. At 31 December 2017 The Bank of New York Mellon Corporation was the sole shareholder of The Bank of New York Mellon, New York.

The corporate structure of BNYM Frankfurt Branch as at 31 December 2017 is illustrated in Figure 1 below.

➤ **Figure 1: The Bank of New York Mellon corporate structure**



EMEA Operating Model (Three Bank Model)

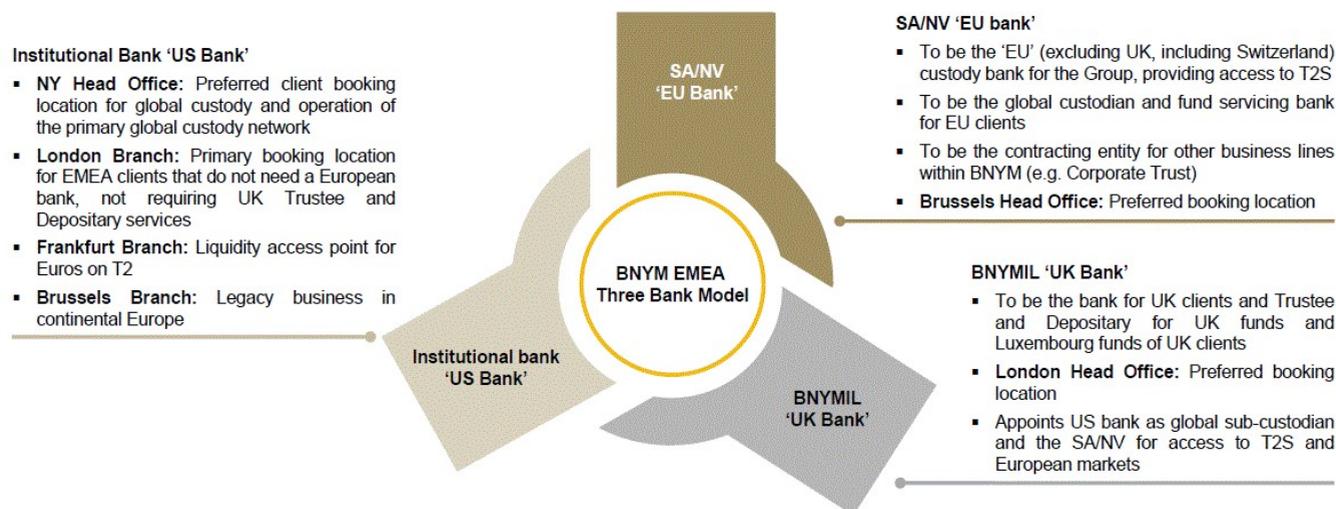
To create a more efficient operating model and respond to increasing demands from regulators in the US, UK and EMEA, the BNY Mellon EMEA Operating Model is proposed to be re-aligned around Three Banking Entities in EMEA. To facilitate the proposed model, a new global booking principle and a Dual Custody model will be implemented within BNY Mellon over the next few years. This rationalized, more efficient and simple structure will give BNYM Frankfurt Branch flexibility for growth by freeing up capital and allowing more room for new products and services, thereby allowing the Company to focus its business on core clients.

The **rationales** behind the Three Bank Model initiative include:

- Reduction of complexity in Legal Entity structure as well as respective contractual framework
- Improvement of resolvability by removing duplication, potential conflicts and improving transparency on risks
- Viability of businesses with appropriate client base, operations / balance sheet size, capital and management
- Appropriate alignment to client needs whilst improving client experience through more efficient service delivery
- Deliver shareholders value through more efficient use of resources, liquidity and capital and improved client growth and retention

The **outcome** of the Three Bank Model is illustrated in figure 2 below:

Figure 2: The Three Bank Model



1.9 Core Business Lines

BNYM Frankfurt Branch 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
- Client deposits

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

2 Risk Management Objectives and Policies

Given the critical role that BNY Mellon plays supporting clients and its status as a Global Systemically Important Financial Institution (G-SIFI), the financial stability of all of its constituent legal entities, throughout market cycles and especially during periods of market turbulence, is recognised at a Corporation level as an imperative. Clients and market participants need to have confidence that the Corporation's many legal entities will remain strong and continue to deliver operational excellence and maintain an uninterrupted service during periods of volatility. Therefore BNYM Frankfurt Branch 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 a significant amount of operational risk as a result of its business model. As a consequence, BNY Mellon has developed an enterprise risk management program that is designed to ensure that:

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

BNYM Frankfurt Branch is integrated in BNY Mellon Corporation's risk management program and has embedded the above policies in local governance processes. As stated in the parents 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 Risk Objectives

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

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

The Branch Management adopts a prudent appetite to all elements of risk to which BNYM Frankfurt Branch is exposed.

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 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 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
- Supervision of BNY Mellon affiliates and branches

The Board meets at least quarterly.

2.2.2 The Branch Management

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

- Conducting and developing the activities of BNYM Frankfurt Branch in accordance with its social objective as described in its articles of incorporation and in accordance with applicable laws
- Making appropriate determinations with regards to accepting or rejecting new business and ensuring escalation to the Board of any issues which cannot be resolved at this level
- Ensuring that BNYM Frankfurt Branch 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 BNYM Frankfurt Branch
- Implementing an effective system of internal controls and an adequate compliance program

The Bank of New York Mellon (Frankfurt Branch)

- 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

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

Name	Position	Number of directorships held	Responsibilities
Christopher Porter	Branch Manager	1	Market
Reinhard Heilmaier	Branch Manager	1	Operations (“Marktfolge”)

Note: Dennis Patrikios was appointed as a third Branch Manager (Operations) on 5 February 2018 and holds 1 directorship.

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.

2.2.3 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 Management Committee (ESRMC) exercises responsibility and provides independent oversight for policies, processes and controls relating to all aspects of risk for the EMEA region. This includes the following EMEA sub-committees:

- EMEA Anti-Money Laundering Oversight Committee
- EMEA Asset and Liability Committee
- EMEA Controls Council

The ESRMC responsibilities include, but are not limited to, the following:

- Monitor and assess the impact of significant current and emerging risks including those associated with strategic initiatives at an EMEA level. Consider the impact on the risk profile of the region and provide further direction if appropriate
- Act as a point of convergence for regional risk reporting (providing a consolidated Legal Entity and Line of Business view) and sharing of risks and issues across Investment Management & Investment Services
- Escalate material issues and recommendations through common membership of the Chairman’s Forum to the BNYM Senior Risk Management Committee (SRMC) and/or relevant Legal Entities

The ESRMC derives its authority from the BNYM Senior Risk Management Committee, but subject to constraints of corporate policy, 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 BNYM Frankfurt Branch is also subject to oversight by the following committees:

EMEA Asset Servicing (AS) and Corporate Trust (CT) Business Acceptance Committees (BAC)

The EMEA AS and CT BACs are responsible for on-boarding new/renewal business into lines of business and subsequently legal entities, including BNYM Frankfurt Branch, 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.

EMEA Asset Servicing (AS) Business Risk Committee (BRC)

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

EMEA Corporate Trust 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.

2.2.5 Legal Entity Risk Management

The oversight of risk management within BNYM Frankfurt Branch is governed by the German Risk Management Committee and BNYM Frankfurt Branch Management Meeting as outlined in 2.2.2 - The Branch Management.

2.3 Risk Management Framework

In line with global policy, BNYM Frankfurt Branch has adopted the 'Three Lines of Defence' model in deploying its risk management framework (figure 3 below). The first line of defence (1LOD) is the business or, in some cases, business partner level. The business takes and owns the risk associated with activities, and it manages the risks and the related control processes and procedures on an operational basis. The risk management and compliance functions are the second line of defence (2LOD) and own the enterprise-wide risk management framework and provide independent oversight of the 1LOD, ensuring that policies are adhered to and challenged. This also includes Corporate Security, Business Continuity, Financial Management and Analysis within Finance. The third line of defence (3LOD) is Internal Audit, which independently provides the BNYM Frankfurt 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 BNYM Frankfurt Branch 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 Defence**



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

BNYM Frankfurt Branch Management 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 Register

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

BNYM Frankfurt Branch's risk register was prepared using risk data extrapolated from business risk and control self-assessments, audit reports, top risk reports, and consultation with business risk champions, business risk partners and executive management. It is owned by the Legal Entity Risk Officer and provides a high level view of the entity's risk exposure and assists in identifying the top risks for the entity.

Detailed risk mitigation plans for top risks are owned and maintained by risk owners and these plans are also made available to the RMC for oversight and challenge from the German Risk Management Committee.

2.5 Risk Appetite

BNYM Frankfurt Branch aligns within the business and risk strategy to the parents 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 branch strategy are reviewed at least annually or when the Company's risk profile changes.

BNYM Frankfurt Branch 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 German RMC.

2.6 Credit Risk

The major source of weighted credit risk for BNYM Frankfurt Branch 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 function, including a respective reporting to Branch Management.

2.7 Operational Risk

In providing a comprehensive array of products and services, we may be exposed to operational risk. Operational risk may result from, but is not limited to, errors related to transaction processing, breaches of internal control systems and compliance requirements, fraud by employees or persons outside BNY Mellon or business interruption due to system failures or other events. Operational risk may also include breaches of our technology and information systems resulting from unauthorized access to confidential information or from internal or external threats, such as cyber-attacks. Potential legal or regulatory actions that could arise as a result of noncompliance with applicable laws and/or regulatory requirements also fall within the operational risk category. In the case of an operational event, we could suffer a financial loss as well as damage to our reputation.

To address these risks, we maintain 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 BNYM Frankfurt Branch for operational risk management:

2.7.1 Risk and Control Self-Assessment

Risk and Control Self Assessments (“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.

2.7.2 Key Risk Indicators

Key Risk Indicators (KRIs) are metrics that are used to monitor activities that can potentially cause the most significant loss or reputation damage to the Company and its affiliates. Results are measured against predetermined standards or thresholds.

2.7.3 Operational Risk Events Database

All operational actual and potential losses and fortuitous gains exceeding USD 10k are recorded in the risk management platform, completeness being verified by reconciliation to the general ledger. Operational risk event reporting forms part of the standard risk management report to the RMC.

2.8 Market Risk

The BNYM Frankfurt Branch is a non-trading book institution. Therefore it is only exposed to the following sources of market risk:

- Interest rate risk: Only limited amounts of interest rate risk persist in the banking book as the assets and liabilities are predominantly due overnight with the exception being trade financing which has maturities of 1 year or less.
- Currency risk: The branch receives earnings predominantly in EUR and USD and is therefore exposed to currency risk. This risk is minimized by actively monitoring the foreign currency exposure and closing out positions that exceed local limits.

BNY Mellon’s group wide market risk management policies and procedures and respective tools for market risk measurement and monitoring are applicable to the BNYM Frankfurt Branch.

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

BNY Mellon manages market risk using a Three Lines of Defence approach (i.e. by each business unit, by Market Risk, and by Internal Audit).

Market risk limits are established in agreement between the market risk management function and the business unit in line with business activities, products and strategies, and include all risk limits required by applicable laws and regulations.

The control framework elements addressing market risk limits include the following actions by the Market Risk Management function:

- Monitoring of utilisation of market risk limits on a daily basis

- Reporting of limit utilisation and limit breaches
- Periodic limit reviews
- Coordinating with business data providers to ensure the completeness and accuracy of data that is the basis for market risk data

A business unit or legal entity must report to its management when the entity's actual market risk exposures exceed currently approved limits. Market risk independently monitors limit breaches. Depending on the level and type of limit that is breached, escalation and notification is to the Executive Committee and Risk Management Committee, EMEAALCO or to EMEA Senior Risk Management and Business Management levels in the organisational hierarchy. In addition to timely notification of breaches to management (and where required by the escalation standard, the Risk Committee), breaches are reviewed periodically at Branch Management meetings.

2.9 Liquidity Risk

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

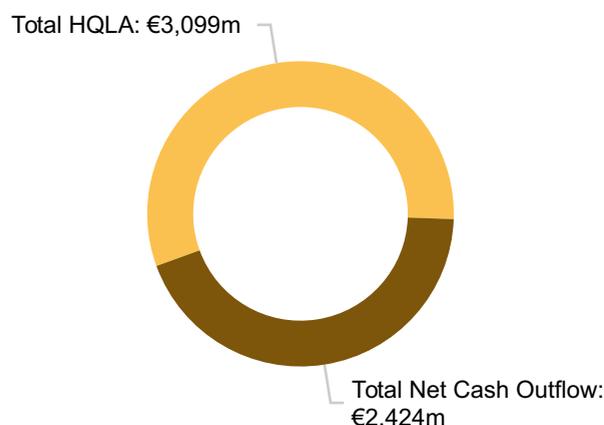
BNY Mellon defines funding liquidity risk as the risk that it cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flow and collateral needs without affecting daily operations or financial conditions. Liquidity risks can arise from funding mismatches,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

BNYM Frankfurt Branch aims to be self-sufficient for liquidity and seeks to maintain a very liquid balance sheet at all times. Its balance sheet is liability driven in nature primarily due to the nature of client deposit taking activity. In order to mitigate liquidity risk BNY Mellon Frankfurt Branch does not actively engage in maturity transformation and the maturity structure of the balance sheet is predominantly due overnight.

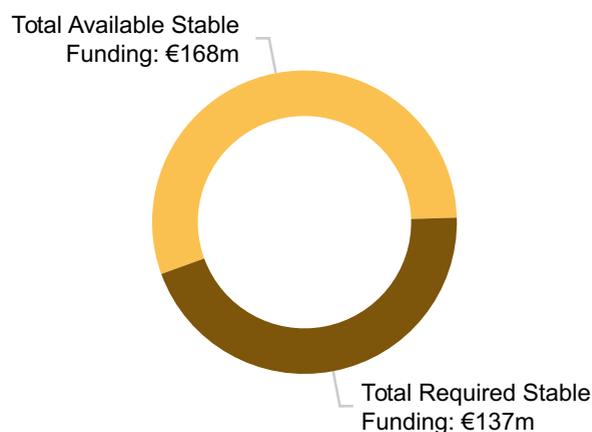
Furthermore BNYM Frankfurt Branch is required to calculate and report the monthly LiqV as well as the Liquidity Coverage Ratio (LCR), from 2018 onwards LiqV will cease to be a reporting requirement as it is being replaced by LCR. During 2017 BNYM Frankfurt Branch exceeded the minimum requirement for LiqV and LCR. During 2017 the average LiqV as calculated from all monthly filling was 2.91. Further details on LCR and Net Stable Funding Ratio (NSFR) can be found in the below table.

The following risk metrics reflect BNYM Frankfurt Branch's risk profile:

➤ **Liquidity Coverage 2017**



➤ **Net Stable Funding 2017**



➤ **Table 1: Key Metrics**

Liquidity Coverage Ratio (LCR)	2017	2016
Total High Quality Liquid Assets (HQLA) (€m)	3,099	3,542
Total Net Cash Outflow (€m)	2,424	3,290
LCR	127.9%	107.6%
Net Stable Funding Ratio (NSFR)		
Total Available Stable Funding (€m)	168	321
Total Required Stable Funding (€m)	137	233
NSFR	122.3%	137.8%

2.10 High Level Assessment

The High Level Assessment (“HLA”) is a business level qualitative assessment performed at the Business/ Business Partner Group level. It is a consolidated review 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. It enables current and emerging risks to be identified, discussed, addressed and elevated as appropriate.

Focusing on the business line, the HLA does not provide specific information on legal entities, however it is a useful source of information to enable the legal entity to form a view on the risks identified by the business lines operating within BNYM Frankfurt Branch.

2.11 Stress Testing

According to FreistVO in conjunction with §53c KWG BNYM Frankfurt Branch is required to perform standalone stress tests, limited to interest rate risk. Further stress testing is performed on a consolidated basis. Branch management ensures that BNYM Frankfurt Branch stays within overall limits as defined by the Group.

2.12 Escalation of Risks and Issues

A robust framework exists for monitoring and escalation of issues and risks. If a material risk issue occurs, the EMEA Governance Guide for reporting and escalation of material issues and risks is followed. Business management is required to notify senior management, which includes BNYM Frankfurt Branch Management, 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 BNYM Frankfurt Branch is being compensated appropriately for the assumption of risk
- Reviewing the impact of changes in business processes on inherent risks and controls such as reorganisations, new products or processes, system conversions and acquisitions, etc.
- Ensuring that processes, risks and controls are continually reassessed for appropriateness and completeness

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

3 Remuneration

3.1 Governance

The Board is responsible for the remuneration policy statement and its application to BNY Mellon. The Board is assisted in its task by BNY Mellon's EMEA Remuneration Governance Committee ("ERGC") which was set-up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses, including BNYM Frankfurt Branch. Remuneration policy decisions of BNY Mellon including its Branches rest with the Board.

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

The BNYM Frankfurt Branch 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 three fiscal years remains below the EUR 15 billion threshold. Also, the national regulator (BaFin) has not determined the Frankfurt Branch to be significant. Consequently, BNYM Frankfurt Branch 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. Furthermore, BNYM Frankfurt Branch is exempt from the requirement to identify staff members who, because of their job role, may have a material impact on the risk profile of the Frankfurt Branch or so-called "material risk takers".

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

Through our compensation philosophy and principles, we align the interests of our employees and shareholders by encouraging actions that contributes 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. Our compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. We aim to ensure that both fixed and variable compensation are consistent with business and market practice, fixed compensation is sufficient to provide for a fully flexible variable compensation program, and variable compensation is in the form of annual and/or long-term incentives, and, where appropriate, granted over equity to align employee remuneration with that of shareholder growth.

3.3 Reference to German Remuneration Report ("Verguetungsbericht")

For further details regarding the remuneration policy as applied at the BNYM Frankfurt Branch we refer to 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 terms are used in this document:

Asset liability committee (ALCO): A risk management committee in a bank or other lending institution that generally comprises the senior management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure

BaFin: Bundesanstalt fuer Finanzdienstleistungsaufsicht (German Banking Supervisory Authority)

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

BNY Mellon: The Bank of New York Mellon

Board: Management body of BNY Mellon

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

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

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

Common Equity Tier 1 capital (CET1): The sum of surplus (net of treasury stock), retained earnings, accumulated other comprehensive income (loss), and CET1 minority interest subject to certain limitations, minus certain regulatory adjustments and deductions

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

EMEA: Europe, Middle-East and Africa region

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

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

German risk management committee (GRMC): A committee covering all entities of BNY Mellon, domiciled in Frankfurt

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 Company'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 and related processes

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

Leverage ratio: Tier 1 capital divided by quarterly average total assets, as defined by the regulators

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

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

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

Risk governance framework: BNYM Frankfurt Branch's risk governance framework has been developed in conjunction with BNY Mellon requirements. Key elements of the framework are:

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

Risk management committee (RMC): A committee which meets on a monthly basis to provide governance on risk related items arising from the business of the group



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