The Bank of New York Mellon (International) Limited

Notes to the Financial Statements - Continued
For the Year Ended 31 December 2019

Directors Duty

Section 172 of the Companies Act 2006 requires directors to run the Company for the benefit of its shareholders as a whole. In doing so the Board of Directors ("the Board") is required to: take into account the long-term impacts of their decisions; maintain strong stakeholder relationships; consider impacts of the Company's operations on the wider community and external environment; and ensure the Company maintains a reputation for high standards of business conduct. The Company is an indirect subsidiary of The Bank of New York Mellon Corporation (the ultimate parent). Ownership is detailed in note 33.

The following disclosure provides insight into how the Board discharges its duties under Section 172 including the breadth of matters discussed and debated during the year.

In reviewing the Company's strategy in 2019, the Board considered four main underpinning pillars being: 1) Growth; 2) Governance; 3) being Compliant; and 4) People. As part of considering the strategy, the Board afforded due attention towards promoting the success of the Company and the likely longer-term impact associated with the decisions taken.

The Company's strategy is aligned to Regional and Corporate strategies and the day-to-day execution is monitored and tracked by the Chief Executive Officer ('CEO') and the Company's Executive Committee which meets once a month. Through this oversight forum the strategy is updated to reflect change accordingly and reported appropriately to the Board of Directors.

The Company operates an employee outsourcing model, utilising third-party services for all functions other than the supervision of outsourced functions and directly employed independent Non-Executive Directors, however in reviewing the strategy, employee interests are taken into account.

Each Board meeting follows a carefully tailored agenda agreed in advance by the Chairman, CEO and Company Secretary. A typical board meeting includes reports on strategic initiatives, progress against the Company's chosen strategy, financial performance, legal and governance updates. The Chairs of the Company's Audit, Risk and Nomination Committees update the Board on the proceedings of meetings of those bodies, including the key discussion points and any particular areas of concern.

During 2019 the directors gave due consideration of the long-term impact that Brexit would have on the Company and its strategy, while recognising the need for a flexible and agile response to client and market demands. In the event of a hard Brexit the directors reviewed the options available for the Luxembourg Fiduciary business. The Company's Luxembourg Branch supported various Corporate Trust appointments and in the scenario of a hard Brexit, the Branch would not qualify for a Luxembourg credit institution licence. The directors reviewed the options available and executed upon the best available option in the interest of the shareholders, which was to cease activity of the Luxembourg Branch and transfer the Luxembourg Fiduciary appointments to the Company.

Further examples are set out below in relation to how the directors gave consideration to long-term factors in the execution of their duties:

- identification of critical functions being, 1) Custody Services including payment, clearing and settlement services; 2) Transfer Agency; and 3) Fund Accounting. Each critical function whose disruption or withdrawal could have an adverse material impact on financial stability in the UK; and

- assessed each of the economic factors that the Company provides to its clients as detailed within the Company's Recovery Plan. The assessment included a quantitative analysis of volumes and values of the services provided alongside a qualitative assessment including the suitability of each service.

In order to help the directors discharge their duties, the Corporate Secretarial Team provides annual training to board report writers and presenters to ensure the following factors are captured within board reports – long-term implications, impact on the risk appetite and strategy, impact on reputation or regulatory position, impact on clients, culture, suppliers, BNY Mellon entities and impacts on the industry, society and the environment.

Taking Employee Interests Into Account

The Board promotes a high performance culture by managing talent, strengthening employee engagement and ensuring effective employee communications. In recognition that improving diversity in decision-making increases innovation, provides better feedback from key market segments, improves outcomes and drives employee engagement, the CEO sponsored the launch of a Shadow Executive Committee. The objective was to create a mirror group of the Company's Executive Committee capable of analysing, debating and making recommendations on key topics relevant to the Company. The directors received regular updates on the work undertaken by the Shadow Executive Committee and spent time with the members.

The Board initiated an Insights Day which is an annual event aimed at providing the directors and BNY Mellon employees with the knowledge that they need to effectively discharge their governance responsibilities, to enhance their ability to review and challenge and to provide them with an opportunity to meet with the wider BNY Mellon teams.

Included within the Company's strategic plan are people-related goals, including supporting the Returning Military programme; a cross-company mentoring scheme; an initiative in Manchester, in 2019, for parents returning to work following maternity/paternity leave; and employee engagement initiatives. The outcome of these initiatives is monitored by the CEO and the Board receives updates from Human Resources on their success.

Business Relationships with Suppliers, Customers and Others

The directors fully recognise the importance of balancing the interests of the Company's internal and external stakeholders: clients, employees, industry groups, regulators, its shareholder and vendors. As such, the Board's composition, and the supporting governance structure it has put in place, have been designed to ensure full consideration is given to meeting the best interests of its stakeholder groups in line with the Company's outsourced model. Detailed within the Directors' report (on page 9) are the Company's dedicated committees to ensure effective escalation of issues through the regional and global structure.

Employees carry out their processes and procedures and if issues occur from their liaison with clients, regulators or vendors that cannot be easily resolved, they are escalated to their managers or committee members who use their professional judgement about when to raise them to the relevant committee. The committees listed within the Directors' report will assess a considered response and maintain appropriate minutes to detail the discussion and decisions made, noting due consideration of their associated immediate, as well as longer-term, impact.

The Company is supported by the CEO who provides regular written updates to the Board in relation to key milestones and progress made under each programme of work underpinning delivery of the Company's strategy. The CEO also provides regular updates on the work of the Company's Executive Committee in relation to the oversight of client activity, the outsourced framework and overseeing that business is executed within risk appetite.

The Company aligns with its group affiliates to leverage numerous policies and provisions for the benefit of all its stakeholders.

The Board receives updates through regular and/or specific escalation from the committee structure and is provided with the opportunity to challenge and request deep dives into specific matters if deemed appropriate.

During 2019 some examples of matters brought to the Board's attention through the aforementioned committees in relation to stakeholder engagement include:

- exercised oversight of the work of the CEO team in collaborating with colleagues in the European Bank and London Branch of the Institutional Bank on topics relevant across entities, specific examples include European Market Infrastructure Regulation, Data, Governance needs and Conflicts of Interest;

- received management information on the outsourced activities for 29 inter-affiliate Service Level Descriptions and three contracts with Third-Party Vendors deemed to be critical;

- visited BNY Mellon's Edinburgh offices to meet with the Company's key supporting functions, Trust & Depositary and Transfer Agency services, and the relationship teams. As part of the visit, the Board participated in discussions with clients about their experience of BNY Mellon and engaged with key financial services representatives from the region;

- received management information from business leads and senior managers in relation to client activity (wins, mandates, pipeline, and business at risk).

Impact on the Community and Environment

The Company is regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA") and operates within its rules. These external organisations as well as industry groups are considered part of the professional environment in which the Company operates and are recognised as stakeholders. Management have met the regulators on a regular basis throughout the year (as part of the close and continuous monitoring regime).

The Company aligns with its group affiliates on matters affecting the community and environment. BNY Mellon was awarded a position on the Climate A List by CDP, the non-profit global environmental disclosure program, for the seventh consecutive year. This is recognition for its climate management leadership through its actions to cut emissions, mitigate climate risks and develop a low-carbon economy.

The Company is committed to understanding and mitigating the financial risks resulting from climate change in line with the requirements set out in the PRA Supervisory Statement on Enhancing banks' and insurers' approaches to managing the financial risks from climate change. The Company is actively enhancing its focus on climate change by actioning an approach around four key areas: 1) Governance (including the appointment of Katherine Damsell as the Senior Manager Function for Climate Change); 2) Risk Management; 3) Scenario Analysis; and 4) Disclosures.

The Company recognises that success in addressing financial risks resulting from climate change must take into account the impact on the Company's clients, vendors, existing and future employees and financials and must also reflect the Company's outsourced business model and status as a subsidiary of a global organisation. Throughout 2019 the Board received regular updates and assurance from Management regarding the embedding of climate related financial risks into the Company's governance arrangements and existing financial risk management practice.

The Company recognises the importance of risk management in the execution of its strategy and the Board has defined the levels of risk acceptable to the Company. This is formalised and monitored through a risk appetite statement. The Risk Management Framework is outlined in more detail in the Directors' report.

High Standards of Business Conduct

The Board initiated an enhanced 'Conduct and Culture' framework that addresses increased regulatory and industry expectations. Work undertaken included performing an assessment of the Company's culture and approach to conduct risk management, with a particular focus on the FCA Five Conduct Question Programme.

The Board received updates on enhancements to the Operational Resiliency and Outsourcing Frameworks and the implementation and embedding of regulatory change initiatives. In doing so the Board considered the regulators' needs, and sought to promote awareness amongst employees.

The senior managers of the Company are embedded appropriately within the governance structure and submit bi-annual status updates to the Board.