# The Bank of New York Mellon (International) Limited

Strategic Report, Directors' Report and Financial Statements

Registered number 03236121

31 December 2023

# The Bank of New York Mellon (International) Limited

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# The Bank of New York Mellon (International) Limited

## Board of directors and other information

**Directors**
P Bergamaschi Broyd (Chair Risk Committee)
P A Davies
M J Dodds
G A Efthimiou (Chair Audit Committee)
H Kablawi (Chair)
M A Murphy
M K Sarvaiya
R C Savchuk

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# The Bank of New York Mellon (International) Limited

## Strategic report

In accordance with Section 414A(1) of the Companies Act 2006, we have prepared the Strategic report which includes a review of The Bank of New York Mellon (International) Limited's ("the Company" or "BNYMIL") business and future developments, a description of the principal risks and uncertainties facing the Company and key performance indicators. The Strategic report also reports against the requirements of Section 172 of the Companies Act 2006.

The ultimate parent company is The Bank of New York Mellon Corporation ("BNY Mellon" or "Group").

**Business review**

The Company reported a pre-tax profit of £98.5 million for the year ended 31 December 2023 (2022: £69.2 million). The Company's total operating profit before taxation was up £34.0 million year on year, driven by higher net interest income, reflecting the rising interest rate environment during 2023. After falling in 2022, the value of Assets Under Administration/Assets Under Custody ("AUA/AUC") started to recover during 2023 driving higher fee income. This was partly offset by lower money market and foreign exchange income, reflecting lower market volume and volatility. Operating expenses decreased year on year mainly due to lower internal service recharges and were also favourably impacted by the strengthening of Sterling ("GBP") in 2023, as a significant proportion of the recharges are denominated in US Dollars ("USD"). During the year, the Company received income from investments in affiliates of £17.5 million (2022: £22.2 million) due to its 10% share in the Investment and Cooperation Agreement ("ICA").

The table below shows the key performance indicators for the Company. Both total operating income and total operating profit before taxation are non-GAAP measures not shown in the Statement of profit and loss or Other comprehensive income, and exclude the impact of the above income from investments in affiliates, in order to provide a better comparison of the year-on-year operating performance of the Company.

**Financial key performance indicators**

The Company's key financial and other performance indicators during the year were as follows:

| | 2023 £000 | 2022 £000 | Change £000 | Change % |
|---|---|---|---|---|
| Total operating income | 249,047 | 218,542 | 30,505 | 14% |
| Total operating expenses | 168,041 | 171,514 | (3,473) | (2)% |
| Total operating profit before taxation | 81,006 | 47,028 | 33,978 | 72% |
| Profit before taxation | 98,522 | 69,183 | 29,339 | 42% |
| Net assets | 954,053 | 863,356 | 90,697 | 11% |

Total operating income increased by £30.5 million mainly due to £28.1 million increase in net interest income reflecting the favourable impact of the rising interest rate environment during 2023 as well as £5.3 million increase in fee income, driven by an increase in the level of AUA/AUC during the year. Other income was £4.2 million adverse year-on-year, reflecting lower money market fees, allocated foreign exchange revenue and affiliate recharge income. Foreign exchange translation losses decreased by £0.9 million.

Total operating expenses decreased by £3.5 million, mainly driven by lower internal service recharges and were also favourably impacted by the strengthening of the GBP in 2023, as a significant proportion of the recharges are denominated in USD.

Net assets were £90.7 million favourable year-on-year, mainly reflecting unrealised gains on securities recognised at fair value through other comprehensive income during 2023 and the increase resulting from the Company's 2023 post-tax profit.

**Companies Act 2006 Section 172 miscellaneous reporting**

This statement is made in accordance with Section 172 of the Companies Act 2006 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) ("Section 172"). It describes how the directors, in acting to promote the success of the Company for the benefit of the shareholders, have had regard to a number of broader matters. These include the likely consequence of decisions for the long-term and the Company's wider relationships.

The directors have acted in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of the shareholder. In doing so, they have had particular regard to the following considerations:

a) the likely consequences of any decision for the long term;
b) the interests of the Company's people;
c) the need to foster the Company's business relationships with suppliers, customers and others;
d) the impact of the Company's operations on the community and the environment;
e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
f) the need to act fairly as between members of the Company.

The directors have discharged these duties through, amongst other things, their compliance with the Senior Managers and Certification Regime ("SMCR") and having regard to these matters when determining the Company's strategy and purpose, and when taking decisions. In order to help the directors discharge their duties, the Company Secretary provides guidance for Board report writers and presenters to ensure that when preparing Board reports, consideration is given to the following factors: long-term implications, impact on the risk appetite and strategy, reputation or regulatory position, clients, culture, suppliers and on the industry, society, and the environment.

Each scheduled Board meeting follows a carefully tailored agenda agreed in advance between the Chair, Chief Executive Officer ("CEO") and the Company Secretary. Typically, a scheduled Board meeting includes reports on progress against the Company's strategy and financial performance, as well as legal, corporate governance and other relevant updates. The Chairs of the Company's Audit ("ACoB"), Risk ("RCoB") and Nomination Committees ("NomCo") provide a report to every scheduled Board meeting on the proceedings of these bodies, including the key discussion points, and any particular areas of concern or matters for escalation.

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

a) Taking into account the long-term impact of decisions

The directors have considered the likely long-term consequences of key decisions made during the course of the year. In particular, for 2023 the directors considered:

*Strategy*

The Board considered the main underpinning pillars of the Company's strategy as being: 1) Be More for Our Clients; 2) Run Our Company Better; and 3) Power Our Culture; these align with, and derive from, the BNY Mellon Group Strategy, and were incorporated into the Company's reporting in 2023 and will form part of the 2024 strategy document refresh. Each pillar is supported by goals and metrics, with day-to-day execution of the strategy monitored and tracked by the CEO and BNYMIL Executive Committee ("ExCo"), which meets on a monthly basis. When reviewing implementation of the strategy in 2023, the Board considered the many aspects of BNY Mellon's business and its stakeholders. It also had regard to the immediate, mid-term and long-term risks and opportunities faced by the Company and their likely impact on the community and the environment. Examples of this include monitoring business at risk and other growth areas; climate change; digitisation and expansion of services to clients; artificial intelligence; ensuring a robust operational and technology resilience pathway; employee wellbeing; and maintaining strong regulatory engagement.

*Corporate Governance*

Since 2021, the Company has strengthened its corporate governance measures by formally adopting the Wates Principles to promote long-term success and positive engagement with stakeholders described further on pages 11 to 17.

*Risk*

The directors recognise the importance of risk management in the execution of the Company's strategy and the Board has reviewed the levels of risk acceptable to the Company. This is formalised and monitored through a Risk Appetite Statement, approved by the Board, and monitored by the RCoB. The Company continually reviews established risk types, and horizon scanning for new risks that could cause a material impact on its long-term success. The Risk Management Framework is outlined in more detail in the Directors' report on pages 17 to 27.

*Regulatory Change*

Regulatory risk is one of the key business and financial risks faced by the Company. The Board receives updates on, and seeks assurance from senior management, on the implementation and embedding of regulatory change initiatives and compliance with ongoing regulatory requirements. Examples of this include monitoring the implementation of the UK Operational Resilience Policy Statements and the Financial Conduct Authority's ("FCA") new Consumer Duty.

The directors periodically review the Company's critical functions (those of which disruption or withdrawal could have an adverse material impact on clients and financial stability in the UK) as part of the Company's recovery and resolution planning requirements as: 1) Global Payments; 2) Custody Services; 3) Transfer Agency; and 4) Accounting Services (Fund Accounting and Administration). The Board has approved the Company's Recovery Plan, which outlines a framework for ensuring the resilience and recoverability of the Company. This plan also demonstrates BNYMIL's ability to recover from a broad range of stresses.

b) Employee Interests

Although the Company operates an outsourced operating model and has no employees, it remains focused on the culture of the broader BNY Mellon employees who support its outsourced operations, the development of those employees and to contribute to the BNY Mellon Global People Strategy. In 2023 the Company continued to focus on its culture, develop its talent and deliver growth of its people. With a renewed focus on three strategic pillars at an enterprise level, (Be more for our clients; Run Our Company Better; and Power Our Culture) the Company has continued to focus on improved employee experience and engagement with an emphasis on greater collaboration, skills, and career development. This has been amplified through mentoring programmes such as the Shadow ExCo initiative, which has operated for a number of years and has helped to strengthen the diversity of the Company's succession benches.

The Board receives regular updates from The People Team, addressing the outcomes of the Company's people agenda. Throughout the year, these updates focused on the engagement of its people resource and insight into the impact and outcome of a number of strategic initiatives; these included the Company's change agenda, our focus on in-office working and collaboration, talent – including a focus on increasing our graduate intake over 2023 and into 2024, wellbeing, attrition, recruitment, and overall culture within the Company as we seek to Power our culture.

BNY Mellon is also committed to providing relevant training and development opportunities through the launch of "BK Learning" (a BNY Mellon learning experience platform), to include achievement of professional qualifications, to enable each employee to successfully fulfil their job responsibilities, build future skills, and in addition, meet regulatory requirements. The Company adheres to the principles of Equal Employment Opportunity and is committed to facilitating employment opportunities for people with disabilities.

c) Suppliers, customers, stakeholders and other third parties

The directors fully recognise the importance of balancing the interests of the Company's internal and external stakeholders: clients, industry groups, regulators, shareholder, and vendors. As such, the Board's composition, and supporting governance structure, have been designed to ensure full consideration to meeting the best interests of its stakeholders in line with the Company's outsourced business model. The Company's committees, as detailed in pages 9 to 11 of the Directors' report, ensure effective escalation of issues through the regional and global structure. The Board receives updates on the interests of internal and external stakeholders through regular updates from its committees, as well as specific escalations, as required. It is also provided with the opportunity to challenge specific matters and request deep dives where it requires further detail on individual topics.

The Company is supported by the CEO, who provides regular written reports to the Board on key milestones, client matters and progress under certain programmes of work and initiatives underpinning delivery of the Company's strategy. The CEO also provides regular updates on the work of the Company's ExCo in relation to the oversight of client activity, the outsourced framework and ensuring that business is executed within agreed risk appetite.

The Board has undertaken climate risk education and continues to be kept informed to ensure that all Board members are informed sufficiently to understand and assess climate-related risks and opportunities. Updates to the Board include the climate-related risk profile produced quarterly for BNYMIL including the financial and non-financial impacts to the Company as outlined below in the Risk Management and Metrics and targets sections.

Where possible and practical, the Company leverages its approach to sustainability and climate from the wider BNY Mellon Group. Sustainability informs how the Group manages its operations, builds solutions to support clients, and partners and engages with stakeholders and communities. The Group considers where there is the greatest opportunity to create value, how to proactively and appropriately manage the effects the business has on the environment and regions around the world where it operates, as well as the effects that these factors can have on the business. The Group is leveraging its global reach and platforms to help advance sustainability and community. That work begins with managing its operations for the long-term and extends to helping clients to meet their own sustainability and community goals through the products and solutions.

The Group's sustainability and climate strategy continues to evolve. There is also a continued development of climate-specific Key Risk Indicators ("KRIs") to enable the BNYMIL Board to enhance their monitoring of climate-related risks, as well as any associated opportunities.

The Board initiated events throughout 2023 for the directors to engage with key stakeholders. The events held covered topics such as digital assets, artificial intelligence, climate change, digitisation, the governance of business and regulatory change programmes, sanctions and financial crime and the risk framework. The events were aimed at providing the directors and BNY Mellon employees with the knowledge needed 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.

Further examples of matters brought to the Board's attention in relation to stakeholder engagement include:

- The Peakon Employee Staff Survey – invites employees to respond to a set of questions to help provide managers with insight into what is on the minds of their teams and allow the opportunity to address any recurring themes that may arise.
- The Company has registered the BNY Mellon Corporate Modern Slavery Statement online with the UK Home Office.
- 30% Club Cross Company Mentoring Scheme – the scheme matches female talent with external mentors from diverse industries, with an objective of supporting females into senior roles within their organisations. BNY Mellon was a participating organisation at the time of its launch, and during 2023 hosted its 10 year anniversary event. The 30% Club continues to be a BNY Mellon initiative forming part of the wider diversity, equity and inclusion ("DEI") agenda.
- In May 2023, two BNYMIL independent non-executive directors ("INED"), participated in a Coffee and Connect event with staff in the London Office to share their experience and reflections on their role as INEDs for the Company.
- Client Engagement – updates from the CEO following meetings with key clients.
- Vendor Engagement – RCoB is provided with regular updates on third party oversight engagement with BNY Mellon's vendors.
- Sustainability Ambassadors – employees can volunteer to help drive and educate on climate change related activities.

d) Impact on the community and environment

The Company is regulated in the UK by the FCA and the Prudential Regulatory Authority ("PRA"). The FCA and the PRA are considered part of the business environment in which the Company operates and are recognised as stakeholders. The directors have a strong, open, and transparent relationship with the Company's regulators.

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, and financial position. It must also reflect the Company's outsourced business model and status as a subsidiary of BNY Mellon.

During 2023, the Board received regular updates in relation to environmental, social and governance ("ESG") key achievements and next steps. The Company takes a strategic approach, led by the Board, with clear accountability, to incorporate analysis, consideration and management of financial risks arising from climate change.

The Company is also aligned with its group affiliates on matters affecting the community and environment. For example, BNY Mellon is included in the 2023 Bloomberg Gender Equality Index, and the Human Rights Campaign's Corporate Equality Index.

e) High Standards of Business Conduct

The Company operates within the FCA and PRA's rules, and the restrictions defined in its regulatory licence. The Company has a defined governance structure, and the independence of Board and Committee members is acknowledged, along their right to escalate matters of regulatory interest to the Board. The Company's approach to corporate governance is outlined in the Directors' report on pages 11 to 17.

All Senior Managers, Certified Persons and Conduct Rules ("SM&CR") staff undertake ongoing SM&CR training sessions.

The aim of SM&CR is to reduce harm to consumers and strengthen market integrity by creating a system that enables firms and regulators to hold individuals to account. SM&CR aims to:

- Encourage staff to take personal responsibility for their actions;
- Improve conduct at all levels; and
- Ensure firms and staff clearly understand and can demonstrate the roles and responsibilities of all relevant staff.

Given that BNYMIL is a subsidiary of BNY Mellon, the Board acknowledges the benefits of aligning with, and where possible leveraging, BNY Mellon Group policies and the provision for matters such as employee support and wellbeing, cyber security and data governance and operational resilience.

The Board continues to benefit from a 'Conduct and Culture' framework which addresses increased regulatory and industry expectations. During 2023, the Board received updates on the Conduct and Culture initiatives completed during the year, along with key initiatives planned for 2024. The BNY Mellon Europe, Middle East and Africa ("EMEA") region Conduct and Culture Council continues to support and drive these initiatives. During 2023, Conduct and Culture continued to be promoted through continued focus on DEI, as well as the delivery of focused training sessions on topics such as the SMCR to the UK Certified and Senior Management Function ("SMF") population as well as training on UK Conduct Rules and complaints handling.

The Chairs of the Company's Audit, Risk and Nomination Committees are also designated as SMF with allocated responsibilities in connection with these roles and periodically meet with the PRA to discuss the discharge of these responsibilities with the Regulator.

On 31 July 2023, the FCA's Consumer Duty (the "Duty") came into effect. The Duty aims to set higher standards of consumer protection across financial services, and it represents what the regulator terms a "paradigm shift" in its expectations of firms. It introduced a new Consumer Principle requiring firms to act to deliver good outcomes for retail customers, including through the appointment of a new Consumer Duty Champion who is responsible for ensuring that the Duty is discussed at meetings and embedded within the business. In April 2023 the BNYMIL CEO was appointed as the Company's Consumer Duty Champion. Following this, in December 2023, in line with regulatory expectations, the Board approved the transfer of this role to P A Davies - an INED, with effect from 1 January 2024.

During the course of the year, the Board received regular updates on the Consumer Duty Implementation Plan, which included enhancements to impacted lines of business. The Board received regular updates on the implementation of the Duty through the CEO's quarterly report, both prior to, and once the Duty came into effect. In June 2023, the Board and ExCo, together with representatives from across the Company, received a training session on the Duty. Relationship Management teams also received targeted training on the Duty through the course of Q2 and Q3 2023.

f) Acting fairly between members of the Company

The Company is a wholly-owned subsidiary within the BNY Mellon Group, and is governed by its Board. It maintains an open and collaborative relationship with BNY Mellon, where ideas and strategic objectives are exchanged and shared. This ensures that the Board remains aligned with the strategic objectives and corporate values of its shareholder whenever appropriate. The Board is fully committed to ensuring due regard to the interests of other stakeholders, as described above.

**Principal risks and uncertainties**

The principal risks and uncertainties affecting the business have been considered and addressed in the Directors' report on pages 17 to 27.

**Business and future developments**

In 2023, the Company continued to enhance its markets access and diversify its funding capabilities. Looking ahead, the Company remains committed to navigating the evolving economic landscape with resilience and adaptability. Management anticipate continued growth opportunities in the markets in which the Company operates and is positioned to meet the evolving needs of its clients through a suite of services whilst maintaining a steadfast focus on risk management and regulatory compliance. Additionally, the Company is dedicated to preserving and further strengthening its capital base, ensuring that there exists the financial foundation necessary to support its operations and withstand market fluctuations. Furthermore, the Company will continue to prioritise maintaining high levels of liquidity, allowing it to effectively meet client needs and capitalise on strategic opportunities as they arise.

As the Company forges ahead, management is confident in its ability to deliver to its clients and uphold the Company's position as a trusted partner in the global financial ecosystem.

**Approval**

By order of the Board

Robin Savchuk
Robin Savchuk (Apr 19, 2024 15:09 GMT+1)

R C Savchuk
Director

The Bank of New York Mellon (International) Limited
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19 April 2024

Registered number: 03236121

# The Bank of New York Mellon (International) Limited

## Directors' report

The directors present their report and financial statements of The Bank of New York Mellon (International) Limited for the year ended 31 December 2023.

**Principal activities**

The principal activity of the Company is asset servicing, providing services and solutions in the investment life cycle, for the management, administration, oversight, safekeeping, and measurement of client cash, securities and other assets as well as depositary and trustee services. The Company will continue to provide these services for the foreseeable future. The Company also has an investment in an associate ("ICA") with The Bank of New York Mellon – London Branch, whose principal activities are similar to those of the Company. The Company is a fully outsourced entity, which means that it does not employ any individuals within its UK operations. The London Branch of The Bank of New York Mellon employs the staff who perform activities in support of the Company's businesses under a Service Level Agreement.

The Company is authorised by the PRA and regulated by the FCA and the PRA. All the Company's activities during the year were regulated and conducted within the scope of permissions granted to the Company by the FCA and PRA.

**Results and dividends**

The profit for the year after taxation amounted to £60.3 million (2022: £50.3 million).

The directors do not recommend a cash dividend for the year ended 31 December 2023 (2022: £nil). During the year, a dividend in specie of £28,000 was made to the Company's immediate parent, BNY International Financing Corporation, to transfer BNYMIL's direct investment in BNY Custodial Nominees (Ireland) Limited.

**Future developments**

See 'Business and future developments' section in the Strategic report.

**Governance and policies**

A number of regional committees and governance bodies are in place to ensure effective escalation of issues through the regional and global structure of the Group. These committees and governance bodies are otherwise authorised by, or act on behalf of, the Company, and report formally and informally though the governance structure, to the Board of Directors. The main governing body of the Company is the Board of Directors. The Board meets on a quarterly basis and receives reports from its ACoB and RCoB on topics including risk management, compliance and internal audit to assist the Board in evaluating the effectiveness of the existing control environment.

The Board delegates certain responsibilities to a number of dedicated committees as follows:

- The Bank of New York Mellon (International) Limited Risk Committee of the Board ("RCoB");
- The Bank of New York Mellon (International) Limited Audit Committee of the Board ("ACoB");
- The Bank of New York Mellon (International) Limited Nomination Committee of the Board ("NomCo");
- The Bank of New York Mellon (International) Limited Executive Committee ("ExCo");
- The Bank of New York Mellon (International) Limited Depositary Advisory Council ("DAC")*;
- CASS Governance Body ("CGB"); and
- EMEA Asset & Liability Committee ("ALCO").

*The DAC was discontinued from 1 July 2023.

### Governance and policies - continued

The RCoB was established to assist the Board in fulfilling its oversight responsibilities concerning the risk appetite and risk management of the Company, as well as compliance with legal and regulatory requirements and controls to prevent, deter and detect fraud, and to monitor other areas of risk associated with the Company, including outsourcing arrangements. The RCoB meets at least four times a year and is chaired by an INED.

The ACoB was established to assist the Board in fulfilling its oversight responsibilities in respect of the Company's financial reporting process; its compliance with legal and regulatory requirements; the efficiency of the internal controls and risk management systems; the performance of the internal audit function; and the statutory auditor's qualifications, independence, provision of additional services, and performance. The ACoB meets at least four times a year and is chaired by an INED.

The NomCo was established to review the structure, size and composition of the Board (including the skills, knowledge, experience and diversity of Board members) and to make recommendations to the Board with respect to Board and Senior Management Function appointments. The NomCo meets at least twice a year and is chaired by an INED.

The ExCo responsibilities include, but are not limited to:

- The day-to-day execution of the Company's business strategy, performance and governance within the strategy approved by the Board, and ensuring that the Company's culture facilitates the performance of business activities with integrity, efficiency and effectiveness; and

- Review of corporate initiatives, including strategic initiatives, financial performance, new business initiatives, policy changes, controls and organisational development. The ExCo has responsibility across all lines of business conducted by or impacting the Company. The ExCo is chaired by the CEO.

The RMC has delegated authority from the RCoB to oversee the day-to-day management of risk. The RMC meets at least ten times per year and is chaired by the UK Head of Operations.

The CGB provides oversight of the Company's organisational arrangements for ensuring compliance with the FCA's Client Assets ("CASS") requirements.

The COOC assists the senior manager performing the CASS Operational Oversight function to ensure that the appropriate client assets and client money protections are being actively achieved by the Company during the course of its business.

The CSTC has delegated authority from the RCoB for ensuring that there is appropriate governance and ownership of the Company's Internal Capital Adequacy Assessment Process ("ICAAP"). The CSTC is responsible for reviewing the capital requirements, ICAAP risk model methodologies and stress testing in accordance with the relevant capital and stress testing policies.

The DAC was established in 2017 with the purpose of providing advice and guidance to the management of the Company's Trust and Depositary business, and it was constituted as an advisory body with no decision-making authority. Following a review of the DAC carried out in 2023, it was determined that given enhanced reporting to the Board on Trust and Depositary, combined with the fact that effective governance arrangements for this line of business exist through ExCo and the RCoB, the DAC was discontinued with effect from 1 July 2023.

**Governance and policies - continued**

Regional Risk Governance includes:

- The EMEA Asset and Liability Committee ("EMEA ALCO") focuses on the balance sheets in its region from an asset and liability management perspective and to promote the efficient and effective functioning of the Legal Entity ALCO or Risk / Branch Management Committees with regard to asset and liability management matters. The EMEA ALCO is responsible for ensuring that corporate policy and guidance set through the Group ALCO is understood and executed locally. This includes communication of corporate level strategy related to the investment portfolio, placements, interest rate risk, capital and liquidity risk;

- The EMEA Conduct and Culture Council ensures continued focus and commitment to ensuring that BNY Mellon adopts processes and behaviours that sustain the values that contribute towards its sound and robust culture, and supports its vision and mission. This ensures that the important topic of conduct and culture receives regular attention, and can be monitored on a continuous basis, for the good of BNY Mellon. The EMEA Conduct and Culture Council escalates issues to the International Senior Risk and Control Committee ("ISRCC") and, where applicable, the relevant EMEA Legal Entity Executive or Management Committee;

- The EMEA Asset Servicing Business Acceptance Committee ("EMEA Asset Servicing BAC") is responsible for considering the risk and reward relating to any new or incremental business deal and/or contract/ fee negotiation with the aim of protecting, and ensuring the right outcomes, for BNY Mellon and its clients and prospective clients. The EMEA Asset Servicing BAC is responsible for approving all new clients and renewal business into lines of businesses and, subsequently, legal entities including the Company; and

- UK Third Party Oversight Forum is responsible for risk-based review and monitoring of all third-party engagements utilised by the Company, in adherence with BNY Mellon's global policies and procedures, and local regulatory expectations. Risk management processes, including those associated with due diligence activities, are assessed and challenged by first and second line representatives, with any identified issues escalated to governance bodies, as appropriate.

**Corporate governance**

*Approach to Corporate Governance*

Fundamental to the Company's strategy are high standards of corporate governance. During the year ended 31 December 2023, the Company followed the Wates Corporate Governance Principles ("the Principles"). The following section explains the Company's approach to corporate governance, and its application of the Principles.

*Principle One - Purpose and leadership*

The Company's purpose is to be a sustainable and profitable entity and an integral part of BNY Mellon's EMEA business as one of the material subsidiaries in the region, providing a full suite of products and services predominantly for asset servicing to UK domiciled fund managers and UK funds, while maintaining the highest standards of client service. The Company's strategy is prepared in conjunction with other entities within the EMEA region to ensure alignment of content. The Company's INEDs are consulted on the priorities for input to the strategy, and individual discussions are held with business partners and the Company's key stakeholders to ensure alignment with corporate, regional and line of business strategies, where appropriate.

The Board is collectively responsible for the long-term success of the Company. It achieves this by overseeing execution of the Company's strategy, within the wider strategy of the BNY Mellon Group. The Board sets the strategy and oversees delivery against it. The Board periodically assesses any challenges or opportunities that have materialised that may impact the strategy over the long term. The principal risks and uncertainties affecting the Company's business have been considered and addressed in the Directors' report on pages 17 to 27.

The Board's supporting governance structure plays a leading role in promoting the success of the Company and in the development and maintenance of its business model. The Company's ExCo is responsible for developing, recommending, and executing strategy and strategic initiatives, and for ensuring alignment with business line strategy. The ExCo monitors the Company's actions and proactively monitors the asset servicing business pipeline to look for opportunities to support and meet clients' needs. The strategy is shared internally with key committees and the Company's senior representatives in order to obtain feedback and help inform the decision-making process to achieve long-term sustainable success in growing the business with new and existing client relationships. Examples of this include an increased focus on digitising and expanding services for clients, creating data and analytic solutions, and enabling clients to access global capital markets and liquidity pools. The Company remains focused on being an enabler to growth and supporting the Asset Servicing strategy and priorities, with additional focus on emerging products and services. The strategy is also used to inform other governance documents such as the ICAAP and the Recovery Plan and, more broadly, is reflected in training sessions for the Board and ExCo, through which the Company describes its progress against its strategic priorities.

The Board establishes, promotes, and monitors the Company's culture and values. The Conduct and Culture expectations of BNY Mellon employees are outlined in the BNY Mellon Code of Conduct, which states the purpose and values as being: Passion for Excellence, Integrity, Strength in Diversity and Courage to Lead. The corporate values and behaviours provide positive reinforcement of required conduct, always doing what is right, emphasising diversity and inclusion, as well as 'speaking up'. Conduct and Culture is a strategic priority for the Company. The ownership is vested in the first line of defence and, from a governance perspective, is supported by the EMEA Conduct and Culture Council, the ISRCC and other business and regional committees. Some examples of how culture is monitored include through colleague focus groups, feedback and surveys and training and awareness programmes. The Company's purpose, values and behaviours are aligned with employee values, through the employee lifecycle to ensure that employees understand how these relate to their day-to-day roles and responsibilities. A suite of metrics is also in place in the form of a Conduct Risk Tracker, enabling holistic oversight and driving action. The Board and ExCo also receive written reports in order to monitor the Conduct and Culture initiatives.

The Company prides itself on having a culture of conservative and prudent risk-taking and places the highest priority on operating within a well-defined risk management framework. Conduct is at the heart of the Company and is integral to its culture and business activities. Delivering good outcomes for clients, markets and colleagues forms an integral part of the Company's business model.

The BNY Mellon Code of Conduct and corporate purpose and values provide a framework for decision making and a guide to business conduct. The Code of Conduct is the foundation of BNY Mellon's commitment to "Doing What's Right", the key principles of the code include Respecting Others, Avoiding Conflicts, Conducting Business, Working with Governments, Protecting Company Assets and Supporting our Communities. Those who manage or supervise others have a special obligation to set an example in Doing What's Right. Some of the ways in which managers are expected to demonstrate this leadership include fostering an environment in which employees are comfortable raising questions and concerns, reporting instances of non-compliance, taking appropriate disciplinary action in respect of compliance and ethics violations and reviewing the Code of Conduct at least annually with staff. There is a global framework of policies for BNY Mellon employees, examples of which include policies to ensure that all employees are empowered to report suspected misconduct without hesitation and to ensure that individuals are able to speak up without fear of reprisal and with confidence that their disclosure will be taken seriously. Employees are provided access to an Ethics Help Line where they can report any concerns. The Company's ACoB receives regular written reports on the data received from the Ethics Office, as well as an annual report from the Whistleblowing Champion describing the Company's Whistleblowing arrangements and assessing the effectiveness of its whistleblowing systems and controls during the reporting period. During 2023, the Company decided that the Whistleblowing Champion role should transfer from the Head of International Audit and Deputy Chief Auditor to an INED in line with regulatory expectations. Consequently, the Board approved the appointment of G A Efthimiou as the Company's Whistleblowing Champion with effect from 1 December 2023.

The Board maintains a detailed Conflicts of Interest Register, validated annually by all lines of business and functions. The Conflicts of Interest Register describes potential conflicts, and mitigating framework controls, as well as any additional business specific controls. During 2023, to align with the regulatory expectation that Conflicts of Interest Registers be reviewed annually by 'Senior Management', responsibility for detailed review of the Company's Conflicts of Interest Register was transferred from the RCoB to the RMC and ExCo. However, to ensure that it retains appropriate oversight of the Conflicts of Interest Framework, the RCoB continues to receive an annual summary report confirming that annual review and attestation has taken place, and highlighting any key points of note. Furthermore, the Board receives a report from the Company Secretary each year on the Directors' Register of Interests.

The Conflicts of Interest Framework has a dedicated governance forum with representation from lines of business, functions and legal entities in order to drive awareness and consistency of application. It supports the identification, recording and annual reporting of identified interests to senior management in line with regulatory requirements. Some examples of the types of conflict scenarios include inter-affiliate arrangements, external appointments, gifts, entertainment and inducements and personal relationships.

The Company is a wholly-owned subsidiary within the BNY Mellon Group and its ultimate parent undertaking, The Bank of New York Mellon Corporation, includes the Company and all its subsidiary undertakings in its consolidated financial statements. The Annual Report and consolidated financial highlights can be viewed at www.bnymellon.com /investorrelations. Commentary is provided within the Annual Report on driving the long-term growth strategy across all of BNY Mellon's businesses with examples provided in relation to asset servicing and the strength of offerings.

*Principle Two - Board Composition*

The composition of the Board ensures that there is an appropriate balance of responsibilities, accountability and decision-making. In 2023 the Board comprised of a Chair and a CEO along with three executive directors and five non-executive directors (four being independent). The Board, supported by its NomCo, regularly reviews its composition and Board Succession Plan, and is committed to ensuring it has the right balance of skills and experience for strategic needs, challenges of the organisation and effective decision-making. During 2023, there were several changes to the Board. R C Savchuk was appointed as an executive director with effect from 31 January 2023 and M K Sarvaiya with effect from 22 March 2023. Later in the year, P A Davies was appointed as an INED with effect from 1 August 2023. On 31 December 2023 two directors, J W Jack (executive director) and J M Johnston (non- executive director), stood down from the Board.

The appointment of both executive and non executive directors is subject to a transparent procedure with input from the Group, the People Team, Compliance, the NomCo, and the Board.

The Board considers that its current size and composition are appropriate to meet the strategic needs of the Company and to ensure the directors have a high-level of understanding relevant to both the needs of the business and stakeholders' interests. The Chair of the Board, H Kablawi, is the Chair of BNY Mellon International. As Chair of International, H Kablawi oversees the regional management teams across EMEA, Asia Pacific and Latin America and leads strategy development, execution, and delivery of enterprise priorities across these regions.

The INEDs are responsible for independent and objective judgement in relation to Board deliberations, constructively challenging and monitoring performance of the management team. The Board is supported by a number of Committees ('the Committees') which make recommendations to the Board. The INEDs chair and are members of the ACoB, RCoB and NomCo to challenge and support the Company across a range of areas. Each Committee has written terms of reference setting out its responsibilities and comprises of individuals with appropriate skills and experience.

In advance of each scheduled Board meeting, the Chair holds a closed-door session with the INEDs to facilitate constructive discussion. To ensure that the directors have appropriate information and sufficient time to prepare for meetings, Board papers are distributed in advance of meetings. Following distribution of the Board materials, there is careful planning with input from key stakeholders, the Chair, and the CEO to ensure that appropriate time is allocated to agenda topics for meaningful Board discussion. The non-executive directors have a communication channel through the Company Secretary should they require any additional information in advance of Board meetings.

The Company has an unwavering commitment to diversity and inclusion in all its forms, including diversity of thought, experience and background, as outlined in the Company's Board Diversity Policy. This commitment aligns with the Company's strategic pillar: Power Our Culture and is also critical to the Company's directors and the ability of BNYMIL to serve its clients and grow its business. The Board places great emphasis on its membership being representative in the broadest sense, and comprises a combination of demographics, skills, experience, race, gender, as well as educational and professional background. The Board believes that having a range of perspectives and insights supports good decision-making. The Board also recognises the importance of gender diversity and, as such, aligned with BNY Mellon's goal as a signatory to HM Treasury's Women in Finance Charter, has agreed that the Board should aspire to maintain a level of at least 33 percent gender diversity. The Board of eight directors currently comprises four women directors. Following the appointment of R C Savchuk on 31 January 2023, the Company met its gender diversity goal of 33 percent female representation on the Board for the remainder of the year. Furthermore, by introducing a voluntary self-identification questionnaire for the Board, its Committees, including ExCo and the RMC, the Company has insights on the breadth of diversity of thought, experience and background across the governance framework. The NomCo will continue to review Board composition on a regular basis. Overall, the combined skills and experience of the Board demonstrate a high level of skill in the areas of strategy, risk and compliance oversight, finance and audit, industry experience, government, regulatory, technology and operational experience.

The Board and each of its Committees undertake annual reviews of their effectiveness. In 2023, Deloitte LLP ("Deloitte") conducted an external review of the Company's Board and Committees. Overall, Deloitte found the Board and its Committees to be high performing and identified a number of strengths including:

- Strong challenge by the INEDs, and the fact that management is receptive to this challenge;
- The positives of the Chair's broader executive role within the Group, as well as their strong chairing skills;
- Effective Board Committees;
- Board support;
- Strong focus at Board level on DEI;
- Thorough and structured induction process for new Board members; and
- Good levels of engagement between the Board and key stakeholders.

Whilst Deloitte did not identify any material weaknesses or areas for development, they made a number of recommendations for the Board to consider in the spirit of continuous improvement. In September 2023, the Board received an action plan to address these recommendations. Several have already been completed and progress on the remainder will be tracked through the NomCo to conclusion during 2024.

Directors keep their skills and knowledge up to date by meeting with senior management, and by attending internal training courses, and sessions delivered by external providers on specific topics of relevance. A programme of internal training events is led by the CEO's office, and in 2023 topics included, but were not limited to: climate change, cyber, digitisation, artificial intelligence, liquidity and capital and the risk framework. All new directors are provided with an induction programmme, developed by the Company Secretary and delivered by a number of key internal stakeholders. This is tailored to the individual's specific experience and knowledge.

The Company maintains objectivity through the composition of the Board and the independence of the INEDs through the decision-making process. The INEDs have regular meetings with the external auditors, Internal Audit, Risk and Compliance.

Further information on BNY Mellon Group Corporate Governance can be viewed at https://www.bnymellon.com/us/en/investor-relations/corporate-governance.html. This includes information on the Group Board of Directors, Committee Membership, Committee Charters and Governance Documents such as Directors Code of Conduct, Corporate Governance Guidelines and Annual Meeting Voting Results.

*Principle Three - Director Responsibilities*

Each director has a clear understanding of their accountability and responsibilities and policies are in place in relation to potential conflicts of interest. When directors are appointed to the Board, they are provided with a tailored induction programme. Ongoing training is subsequently provided throughout the year to take account of regulatory change and ongoing developments. On an annual basis, the Company Secretary provides written guidance to the Board on the requirements of Directors' Interests and Acceptance of Third-Party Benefits.

The directors assume ultimate responsibility for all matters and, along with senior management, are committed to maintaining a robust control framework. The Board operates a programme of at least four scheduled meetings every year, with ad-hoc meetings held as and when required. The Board's key areas of focus in 2023 are detailed in the Section 172 statement on pages 3 to 7. The Board receives regular and timely information on key aspects of the business including, financial performance, implementation of the strategy, operational matters, client updates and products, stakeholder engagement and reports from its Committees. To ensure that Board members have a clear understanding of their role, Board papers are supported by an executive summary setting out the purpose of the report and providing accurate and comprehensive information. Board and Committee meetings are managed in such a way as to ensure there is open debate, with adequate time allocated to allow directors to fully consider proposals put forward.

The Board has reserved certain principal matters for its own approval, as documented in the Schedule of Matters Reserved for the Board, which is reviewed annually. The Board has otherwise delegated the executive management of the Company's business to the CEO and the ExCo. Certain responsibilities are delegated to other Board Committees (ACoB, RCoB and NomCo). The Board and its Committees have clearly documented terms of reference and the membership of ACoB, RCoB and NomCo are comprised entirely of INEDs who support effective decision-making and independent challenge.

The Chair of the Board and the Chairs of the Committees, supported by the Company Secretary, periodically review the terms of reference and forward agenda planners to ensure they remain fit for purpose and consider any initiatives that could strengthen the governance of the Company.

At each Board meeting, all directors are asked to declare any potential conflicts of interest. These declarations are collated by the Company Secretary and where there are potential conflicts, appropriate safeguards are implemented. The Board has adopted the Business Conflicts of Interest Policy, which provides a framework for managing business conflicts of interests and sets out BNY Mellon's requirements and expectations in relation to potential conflicts of interest that may arise within the Group. The Company Secretary maintains and presents to the Board on an annual basis the individual directors' register of interests.

*Principle Four - Opportunity and Risk*

The promotion of the long-term sustainable success of the Company is fundamental to BNYMIL's strategy, which is updated each year, under Board direction. As one of the material businesses in the region, the Company is an integral part of the BNY Mellon EMEA business. It proactively looks for opportunities to support and meet clients' needs and seeks to ensure it makes a positive contribution to society. Expansion of the Company's activities into new business or geographic areas and approval of any acquisitions, disposals or mergers are matters which are reserved for the Board. Monitoring the management of clients, business partners and third-party activities and ensuring that business is executed within risk appetite limits, are responsibilities of the ExCo.

Strong risk management is central to the strategy of the Company which, along with a robust risk control framework, acts as the foundation for the effective management of risk. Approval of the Company's Risk Management Framework, Risk Appetite Statement ('RAS') and risk limits are matters which are reserved for the Board. Risk oversight is delegated to the RCoB, which meets on at least a quarterly basis. The RCoB assists the Board in fulfilling its oversight responsibilities in connection with the Company's risk appetite and the overall management of risk.

The Board has established a RAS in accordance with the Global Risk Appetite Policy, which is cross-referenced against the Corporate as well as the Asset Servicing Risk Appetite Statements. The RAS utilises a high-level assessment to summarise the risk profile of the entity using the risk taxonomy, focusing on six key areas: operational, strategic, model, market, liquidity, and credit risks. The Company has in place a well-established framework, which provides oversight for the identification and mitigation of risks across the Company.

In order to enable the Board to make informed and robust decisions, regular updates are provided to the RCoB on the process for the identification of the risks impacting the Company. This risk identification exercise is utilised to identify, manage, and mitigate, where possible and warranted, current and emerging risks. As such, whilst this exercise identifies current and emerging risks and challenges that may impact the Company's risk profile, the findings can also be used to identify potential opportunities. In view of the Company's outsourced operating model, and in order to drive efficiency and integrate conversations amongst key stakeholders, the risk identification exercise is conducted collaboratively with other legal entities in the region.

Each RCoB meeting is attended by the UK Legal Entity Risk Officer and Compliance Officer. Executives and other senior managers attend RCoB meetings during the year to report on risk items, as required. The Chair of the RCoB provides a written report for each quarterly Board meeting, which provides an overview of the matters considered, items for escalation and recommends decisions that require Board approval.

*Principle Five - Remuneration*

The Company operates an outsourcing model, utilising Group, and third-party services for all functions. The Board has delegated authority to the EMEA Remuneration Advisory Council ("ERAC") for overseeing the development and implementation of the Group's Remuneration Framework, policies, and practices. The ERAC provides an annual report to the Board on compliance with the regulatory remuneration rules. In addition, the People Team undertakes a periodic benchmarking exercise on the Company's non-executive director pay to ensure that pay remains market competitive.

The Remuneration Framework establishes the general principles, practices, and processes that BNY Mellon applies with regard to taking decisions about employee remuneration. The Remuneration Framework applies to all Capital Requirements Regulation ("CRR") entities regulated by the PRA and the FCA and is therefore relevant to BNYMIL. It is based, in part, on BNY Mellon's broader compensation philosophy, which focuses on ensuring that employees receive remuneration that encourages and rewards contribution, and which supports the corporate values underpinning BNY Mellon's business strategy. In order to support the corporate values, the remuneration framework aims to ensure that remuneration reflects performance, attracts and retains high-performing employees and incentivises behaviour that contributes to long-term shareholder value. In line with legislation, BNY Mellon publishes a UK Gender Pay Gap report. BNY Mellon conducts periodic reviews of pay levels across all comparable roles in the business to ensure that people of different genders are paid equally for doing equivalent jobs with similar levels of experience and skill. People are BNY Mellon's most important asset, enabling the organisation to be focused on urgency, accountability, excellence, and innovation. Diversity and inclusion are values that are interwoven into the Company's culture, and these values inform the compensation principles.

The ERAC functions as the main supervisory body for all applicable compensation plans to ensure that these follow the specific regulatory provisions that apply in the different countries in the region. The ERAC is responsible for approving the Material Risk Takers ("MRT") definition, and for annually approving the list of identified MRTs in line with regulatory requirements. On at least an annual basis, the ERAC reviews remuneration policies and their application in the region with respect to adherence to local regulatory requirements. The applicable remuneration rules that the Company is subject to include the Capital Requirements Directive V ("CRDV") and PRA and FCA rules.

A number of the Company's directors are members of the ERAC. The governance bodies that are responsible for providing oversight of the ERAC include the Human Resources and Compensation Committee ("HRCC") and the Compensation Oversight Committee ("COC"). The HRCC is responsible for overseeing BNY Mellon's employee compensation and benefits policies and programmes globally. The members of the HRCC are non-executive members of BNY Mellon's Board of Directors. The members of the COC are senior members of BNY Mellon management. Further information on the purposes, resources, and general considerations of the HRCC can be viewed at www.bnymellon.com/corporategovernance.

*Principle Six - Stakeholder Relationships and Engagement*

The Board considers that good governance and effective communication are essential to fostering relationships with all its stakeholders including its clients, workforce, industry groups, regulators, shareholder, and vendors. Close dialogue with stakeholders is an integral part of the Company's operations. Senior leaders welcome dialogue with the Company's stakeholders. The Board's composition, and the supporting governance structure it has put in place, have also been designed to ensure full consideration is given to meeting the best interests of its stakeholder groups. The approach of the Board in respect of engagement and obtaining feedback from suppliers, customers and other third parties is described in the separate Section 172 statement on pages 3 to 7.

The Board discloses the Company's position and prospects in more detail on pages 37 to 40 and the Strategic report, Directors' report. The financial statements are made available to the regulator on an annual basis and are published on the Companies House website. In accordance with the requirements of the CRR and the CRDV, the Board annually prepares and makes publicly available the Company's Pillar 3 disclosures on capital and risk management.

The Company takes pride in proactively addressing today's global challenges. As part of a major global financial institution, the Company considers the impact its business has on the environment, society, and stakeholders. Examples of this include the Board overseeing and monitoring climate-related activities, reviewing client engagement and activity, identifying the Company's critical functions, and monitoring operational resiliency and recovery. The Company strives to contribute to sustainable economic growth that protects healthy markets, enhances its business resiliency, and delivers positive outcomes for its stakeholders.

Listening to, and empowering its workforce is critical to achieving the Company's goals. As part of the BNY Mellon Group, the Company benefits from communications to employees through Town Halls, internal emails, newsletters, and the intranet. The BNY Mellon "Power Our Culture" pillar is embedded in the Company's own strategy. The Shadow ExCo programmme is described in the separate Section 172 statement on pages 3 to 7. The programme offers meaningful two-way dialogue between the Board, ExCo and the participating members, with the aim of sharing ideas, personal development, and providing mentoring opportunities, which in turn helps contribute to the Company's success.

There is a global framework of policies for BNY Mellon employees aligned with the Company's purpose and values. Examples of some of the global policies include the Escalation, Speaking Up, Reporting and Non-Retaliation Policy and the Code of Conduct. The ExCo is responsible for reviewing the effectiveness of policies, arrangements and procedures put in place to comply with the Company's regulatory obligations. The ExCo is provided with written reports identifying new and amended policies that affect the Company. A number of the policies reported to the ExCo during 2023 included the Capital Management Policy, Liquidity Policy, Interest Rate Risk Policy and the Global Recovery and Resolution Planning Policy.

The BNY Mellon website, intranet and social media channels provide extensive and up-to-date news on recent developments relevant to its clients, colleagues, and partners.

**Risk management**

***Risk management process***

The Board sets the strategy and policies for the management of these risks and is responsible for risk identification, management and monitoring.

***Risk management framework***

The Enterprise Risk Management Framework is established to effectively manage risks corresponding to the execution of the business strategy and the Firm's day-to-day operations. The risk management framework consists of identifying and assessing risks for the Company, maintaining an internal control environment, establishing risk appetite and embedding risk considerations into decisions.

**Risk management - continued**

***Risk management framework - continued***

The Company is committed to ensuring that, in executing on its strategic and operational plans, it at all times operates within its own Risk appetite. The Company's Risk Appetite Framework defines the roles and responsibilities for ownership, approval and monitoring of Risk appetite, and the incorporation of Risk appetite into the governance, business management, decision making and strategy development processes of the Company. The framework and related metrics are set and owned by the Board, followed by the First and overseen by the Second Lines of Defence ("LOD"). Metrics are reviewed monthly and discussed at monthly Risk Management Committee ("RMC") meetings.

The Company has developed its Risk appetite with reference to the key risks identified within the Corporate Risk Appetite Statement. The Company identifies six key areas in its risk taxonomy: strategic, operational, credit, market, liquidity and model risks. Additional risk considerations to complement these include reputational, operational resiliency and environmental, social and governance risk (encompasses climate-change related risk) which run throughout the different areas of the risk taxonomy listed above.

***Strategic risk***

Strategic risk is defined as the risk arising from the flawed design of business strategy, decision or implementation of a business strategy, and potential disruption to business strategy by external factors and/or internal decisions which jeopardises the ability to deliver commercial outcomes as planned.

The Company seeks to minimise this risk by having a thorough understanding of the markets in which it participates, that it employs a continuous improvement approach, and has programmes and makes direct investments that encourage and create innovative outcomes.

***Operational risk***

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

Operational risks 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.

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

The ORMF defines roles and responsibilities based on BNY Mellon's global policy, using the Three LOD model as a foundation. Thus, responsibility for the management of operational risk sits first and foremost with the business and functions.

The Company uses the ORMF to capture, analyse and monitor its operational risks. The tools used to manage the operational risks of the business are mandated through individual operational risk polices and are prescribed through the enterprise operational risk programme, assessment systems and related processes.

The Company utilises comprehensive policies and procedures designed to provide a sound operational environment. The Corporate Operational Risk Policies are reviewed and enhanced on an ongoing basis, and adopted by all businesses/legal entities including the Company.

**Risk management - continued**

***Operational risk – specific to Restitution***

Restitution risk relates to the obligation imposed on the depositary by fund regulations (i.e., Alternative Investment Fund Managers Directive ("AIFMD") or Undertakings for the Collective Investments in Transferable Securities ("UCITs")) and is considered as part of the Operational Risk taxonomy. The Company may also opt to take on restitution liability electively for clients for whom restitution liability is not mandated. Restitution liability obliges the depositary or custodian to make good the client for the cost of loss of financial instruments, (the "assets") held in custody by the depositary or custodian itself or its delegates. In this context, cash is deemed to be excluded from the obligation of restitution.

The risks are managed by exclusion of some sub-custodians and markets, full discharge of liability to prime brokers appointed as delegates in the case of AIFMD funds, and limiting appetite to act as depositary with restitution liability only where the Company is also the custodian.

The Company has a range of governance forums which help to ensure that this risk is adequately mitigated, on an ongoing basis, and control structures are appropriate and functioning properly.

***Operational risk – specific to Conduct***

Conduct risk is defined as the risk that detriment is caused to clients, the market, the Company or its employees because of inappropriate execution of its business activities or inappropriate behaviour by the Company or its employees and is considered within the Operational Risk taxonomy.

The Company is subject to the BNY Mellon Group Conduct Risk Policy and Code of Conduct, which sets out clear expectations of the roles of senior management in setting the appropriate tone, and includes examples of good and poor conduct. Employees receive periodic training or briefing on conduct-related matters and are required to complete an annual process to confirm adherence to the Code of Conduct. Conduct-related management information is captured and provided to the RMC and reviews of conduct-related matters can be included in the scope of Compliance Monitoring and/or Internal Audit assurance reviews.

***Credit risk***

Credit risk denotes a broad category of adverse financial outcomes arising from credit events (default, bankruptcy, ratings migration) associated with the obligor or counterparty reneging (inability or unwilling) to meet its contractual obligations. It exists any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

Mitigation of credit risk is discussed in Note 2 ("Financial risk management").

***Market risk***

Market risk is defined as the risk of financial loss or adverse change to the economic condition resulting from movements in market risk factors. Market risk factors include but are not limited to interest rates, credit spreads, foreign exchanges rates, commodity prices, and equity prices.

Mitigation of market risk is discussed in Note 2 ("Financial risk management").

**Risk management - continued**

***Liquidity risk***

Liquidity risk is 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 short-term (up to one year) obligations. Liquidity risk includes the inability to access funding sources or manage fluctuations in funding levels.

Mitigation of liquidity risk is also discussed in Note 2 (“Financial risk management”).

***Model risk***

Model risk is defined as the potential loss arising from incorrectly designing or using a model or stress conditions that invalidate the assumptions of a model.

The Company relies on the global framework for the management of both model risk and user defined technology. Material models are formally presented to the Capital and Stress Testing Committee (CSTC) to ensure Legal Entity oversight and ownership.

***Geopolitical and other macro-environmental risks***

The Company is exposed to geopolitical risks associated with political instability, terrorists acts, military conflicts, civil unrests and tensions between countries, which could impact its clients and cause disruption to business operations. The most notable events that are affecting the macro environment include the conflict between Russia and Ukraine as well as the recent conflict in the Middle East.

Several sanctions and other regulatory measures have been imposed on Russia and its associates due to its conflict with Ukraine, which has among other things impaired normal global economic trading activities as well as impacted the inflation rates across several territories including the UK. BNY Group maintains controls, processes and policies that are designed to adhere to relevant sanctions laws and regulations in countries in which the Group operates. The Group continues to monitor any subsequent developments associated with the conflict whilst taking necessary actions where prompted. In addition, the Group and the Company continue to actively monitor the conflict in the Middle East and seek to manage the associated impacts on customers, service delivery and business operations including any impacts to major vendors.

***Climate-related risk***

***Our climate ambition and strategy***

Climate and environmental considerations material to our business remain a priority for BNYMIL, for the financial industry, as well as for issuers and investors across the investment lifecycle and value chain. At the corporate level, we set priorities, lead on cross-line of business (LoB) and cross-entity work streams, and help drive business transformation related to sustainability risks and opportunities. In particular, we remain committed to reducing the greenhouse gas (GHG) emissions footprint of our operations, identifying and managing ESG-related risks, including those arising from climate change in our role as a global financial services provider, providing transparency in relation to BNYM's climate-related activities to our stakeholders and working closely with our clients to assist them in their own climate-related activities. BNYMIL contributes to the direction of corporate-level activities, ensuring that objectives are in line with local regulatory requirements.

**Risk management - continued**

***1. Governance***

***1.1 Board oversight of climate-related risks and opportunities***

The Board recognises the importance of managing climate-related risks and steps have been taken to enhance its oversight. The Board has delegated certain responsibilities to the committees noted below to ensure the effective embeddedness of climate-related risks amongst these governance forums. Respective Terms of Reference ("TOR") for these committees include responsibility for managing climate-related risk:

- Risk Committee of the Board;
- Risk Management Committee; and
- Capital and Stress Testing Committee.

The Board meets on a quarterly basis and receives updates from the above-mentioned committees, which have considered climate-related risks as part of their responsibilities, ensuring effective oversight from the Board. The quarterly updates to the Board includes a climate risk report for the entity that captures the financial and non financial impacts of climate change. The Board approves the following activities/reports where climate related risks impacts are considered – Annual Strategy, Annual Risk Appetite Statement, Annual Risk Identification Assessment, Internal Capital Adequacy Assessment Process ("ICAAP"), Annual Financial Statements and Pillar III Report.

The Board has adopted a climate strategy, which proposes the following:

- A Global Footprint Approach;
- A Global Climate Risk Approach; and
- A Global Approach to Clients and Products.

The Chair of the Board is the Senior Management Function ("SMF") allocated responsibility for 'identifying and managing the financial risk from climate change.' The Chair delegates climate-related risk responsibilities to the relevant SMFs and senior management within the Lines of Business and Operations.

The Board has undertaken climate risk training and continues to be kept updated to ensure that all Board members are appropriately informed to understand and assess climate-related risks and opportunities as outlined below in the Risk Management and Metrics and targets sections.

The Group Climate Strategy is reflected within the BNYMIL strategy. There is also continued development of climate-specific Key Risk Indicators ("KRIs") to enable the Board to enhance its monitoring of climate-related risks, as well as any associated opportunities.

**Risk management - continued**

***1.2 BNYMIL Management's role in assessing and managing climate-related risks and opportunities***

BNYMIL has adopted the Three LOD model in deploying its risk management framework in line with the Group's organisational structure.

Dedicated first and second LOD management is in place to provide support in developing climate-related strategy as well as support to assess and manage climate-related risks as well as identifying business opportunities where relevant. In particular, the second LOD is supported by the Global ESG Chief Risk & Compliance Officer ("ESG CRCO") who is responsible across the Group for the design and implementation of the climate-related risks requirements relating to the global risk frameworks. First LOD management are responsible for the embedding of these climate-related risks requirements and work in partnership with second LOD to achieve this.

Climate change considerations are captured in BNYMIL's annually refreshed Strategy and Risk Appetite Statements, which are subject to approval by the Board of Directors, as well as more generally across the Risk Framework.

***2. Strategy***

***2.1 Overview (Climate-related risks and opportunities identified over the short, medium, and long term)***

BNYMIL's periodic risk assessments consider both physical and transitional risks across time horizons. The climate-related risk profile report produced quarterly for BNYMIL articulates climate-related financial and non-financial impacts.

We have developed an enterprise climate strategy that integrates climate change as a strategic consideration in our business and operations, incorporates climate-related risk into our enterprise risk management practices, promotes transparency through disclosure and stakeholder engagement, and advances industry best practices through thought leadership and collaboration. In 2018, we committed to reduce our Scope 1 and 2 greenhouse gas (GHG) emissions by 20% by 2025 relative to a 2018 baseline, consistent with a maximum temperate rise of 2°C. We achieved 20% reduction for the first time in 2020 and have maintained or exceeded the reduction target in each year since, with 32% reduction relative to our 2018 baseline at year end 2022. In 2023, we conducted another in-depth review and are now working towards delivering GHG emissions reductions in relevant areas of our Scope 1 and Scope 2 operational emissions and on-balance sheet Scope 3 financed emissions consistent with 1.5°C pathways by 2030. This approach reflects our commitment to resiliency and sustainability across our business activities and operations, that is grounded on data, analysis and execution.

BNYMIL will explore the possibility of expanding its scenario testing to clearly identify the potential impacts of physical and transitional risks identified, as well as the associated opportunities related to those areas across short, medium and long-term horizons. Ongoing measurement and reporting will be used by the Company to support management discussions and the development of risk strategy with respect to climate change.

***2.2 Impact of climate-related risks and opportunities on BNYMIL's business, strategy, and financial planning***

BNYMIL has considered climate-related impacts across all risk categories and processes to support ongoing monitoring and decision making, including decisions relating to ongoing strategy.

The impact of climate-related risks on business strategy is predominantly focused on changes to strategy at the micro level – understanding of climate-related risks supporting individual decision making as part of managing risk as well as supporting the development of products, and services to support clients in their own climate ambitions.

In Q3 2023, the entity undertook a Climate Risk Driver Assessment specific to BNYMIL which concluded that the impact of 'Transition Risk' to the entity is low with current procedures sufficient to mitigate, and 'Physical Risks' assessed to be of immediate impact to the UK Bank (within the next 3 years).

**Risk management - continued**

***2. Strategy - continued***

Climate Change related scenario analysis considers longer term strategic implications directly associated with climate change and considers explicitly the impact to, and response of, the Group's strategy consistent with The Network for Greening the Financial System ("NGFS") carbon transition pathways.

As part of the 2023 ICAAP, BNYMIL assessed the financial and capital impacts of three 30-year NGFS developed climate change scenarios with the analysis considering both internal and external factors. Short term factors were also considered in the 2023 Internal Liquidity Adequacy Assessment Process ("ILAAP").

The analysis undertaken in BNYMIL's 2023 ICAAP and ILAAP illustrated a non-material impact from climate-related risks relative to overall risk profile, and therefore, the current business strategy remains unchanged.

BNYMIL's approach to scenario analysis will continue to be enhanced and run periodically to inform senior management of potential impact.

BNYMIL continues to monitor climate-related risks as reported through KRIs and scenario analysis. These are increasingly important considerations at the overall strategy setting level and processes are being put in place to ensure management are aware of climate-related risks as part of the strategy setting process.

BNYMIL will consider appropriate opportunities that will provide the most impactful return to the Company and its stakeholders (including its customers) in addressing the risks and opportunities of climate change. Further details about climate-related risks and opportunities identified and associated decisions and actions will be disclosed as the Company further matures its approach.

***3. Risk management***

The management of climate-related risk is integrated into the Risk Management Framework, which includes a formal process to identify and assess climate driven risks, maintaining an internal control environment, establishing risk appetite, and embedding risk considerations into decision making. The process is underpinned with risk management policies and procedures and inclusion in relevant governance structures.

While the impacts of climate change have been assessed as non-material relative to the overall risk profile, it is nonetheless managed and monitored in line with material risks should the profile change in future.

***3.1 Processes for identifying and assessing climate-related risks***

Leveraging the BNY Mellon risk identification process, our approach is to perform a number of different climate related risk assessments for all lines of business and consider primary potential transition and physical transmission channels.

Risks identified are assessed both quantitatively and qualitatively to be able to determine if a risk is material. To assess the materiality of climate related risks, both metrics and expert judgement are used to determine materiality in the short, medium and long term. Determination of materiality is linked to the Enterprise Materiality Framework and applied consistently with other risks. Regardless of whether a risk is deemed material at this stage, all risk types are monitored through reporting and dedicated risk assessment tools to ensure that both aggregate and idiosyncratic risks are understood and mitigated as appropriate.

**Risk management - continued**

***3. Risk management - continued***

In 2023, BNY Mellon developed a Climate Risk Driver Assessment to enhance the structured approach to identifying and assessing impact from climate change. The climate risk driver assessment requires each Line of Business and Legal Entity to perform an assessment that includes:

- Determining if any business activity could be impacted by climate-driven risks;
- Assessing the materiality of the identified risks;
- Assessing the effectiveness of current mitigants and controls in place and identify additional mitigation required; and
- Identifying any additional reporting and/or metrics/KRIs to be developed.

***3.2 Processes for managing climate-related risks***

Embedding climate-related risk considerations in day-to-day risk management ensures that the processes used to take on a new client, product and service development, or managing third-party relationships, incorporate climate-related assessments to assess risk impacts that may require mitigation and/or escalation through the decision-making process.

Further embedding of climate-related risk decision-making in business areas is supported by ongoing training, and development of decision-making tools and processes. Training encourages participants to lead by example and set the tone to support a culture that institutionalises appropriate risk management behaviour with respect to climate.

Examples of how we embed climate risk considerations in day-to-day risk management include;

**New Clients:** BNY Mellon has implemented a client ESG risk assessment to review all new clients against certain criteria. The process focuses on negative ESG-related information, association with certain activities assessed to be higher risk, and other assessments, including, for example, client commitment to climate-related transitions. Using external data sources, coupled with internal governance and expertise, the client ESG-driven assessment approach provides a dedicated risk assessment mechanism in order to minimise potential strategic and reputational risks for BNYMIL.

**Product and Service Development:** Effective development of new products and businesses involves a dedicated risk management approach comprising an assessment of a range of relevant risks including those related to climate change.

**Third party relationships:** Given critical dependencies on third parties, it is necessary to understand how climate-related risks may impact any of our service and vendor providers. Assessment will continue to evolve in 2024, and include more targeted due diligence leveraging the ESG focus in the Sourcing Industry Group due diligence questionnaire, enhancing reporting, raising awareness of risks, and supporting the decision-making process through the third-party engagement life cycle.

***3.3 Climate Risk Management***

Risk appetite for BNYMIL does not currently include limits being set against risk drivers. However, climate-related impacts could lead to an increase in risk that may increase the chance of a limit breach across any risk category for which risk appetite limits are set. On that basis, ensuring that risk concentrations are minimised, and risk is appropriately identified, assessed, monitored and managed is key to the framework. Risk appetite limits are in place at the risk category level and capture the impacts of all risk drivers, including climate change.

Climate-related risk is further monitored through climate specific KRIs that measure levels of risk. A quarterly Climate Risk Report for BNYMIL is used for periodic monitoring and reporting of climate-related risks. The report includes quantitative and qualitative metrics/KRIs which capture the different elements of climate-related impacts.

**Risk management - continued**

***3. Risk management - continued***

There are embedded processes to report and discuss climate-related risks to the BNYMIL Board and relevant committees to support senior management review and decision-making. The reporting includes results from ongoing monitoring as well as general updates on climate-related regulatory landscape. All applicable emerging regulatory consultations, guidance and final requirements are proactively captured and managed through BNYM's established regulatory change process.

***4. Metrics and targets***

BNYMIL as an outsourcing recipient leverages the Group's structure to deliver products and services to its clients. The Group has developed quantitative risk management tools to understand potential areas of vulnerability. Assessments to identify and map sectors generally exposed to high and moderate risks brought about by climate-related risk drivers (both physical and transition) have been developed and implemented. These measurements allow management to focus on clients in sectors with elevated risk.

Climate-related risk has been incorporated into financial and non-financial risk assessments and reporting.

These risks include:

***Strategic risk***

This is a risk arising from adverse business decisions, poor implementation of business decisions or lack of responsiveness to changes in the financial industry and operating environment. Strategic and/or business risks may also arise from the acceptance of new businesses, the introduction or modification of products, strategic finance and risk management decisions, business process changes, complex transactions, acquisitions / divestitures / joint ventures, and major capital expenditures or investments. Examples include:

*Physical risk*

- Impact on operational resilience through physical events, in turn potentially impacting ability to deliver on strategic objectives and operational continuity of service provision.

*Transition risk*

- Ability to deliver on existing strategy and maintain profitability as part of climate transition.
- Adverse publicity from interactions with clients, activities, or vendors who themselves attract negative attention.
- Failure to keep pace with changes in client demand for products which incorporate climate-related considerations.
- Inability to attract or retain staff, or impacts on client relationships, due to a failure to maintain a suitable climate-related strategy.

*Key metric*

- Amount of revenue derived from clients in industries with high carbon weighted intensities.
- Employee satisfaction on BNY Mellon efforts to address ESG topics.

**Risk management - continued**

***4. Metrics and targets - continued***

***Operational risk***

This relates to the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. Operational risk includes compliance and technology risks. Examples include:

*Physical risk*
- Additional operational losses as a result of increased severity of physical loss events.
- Losses due to resilience implications of physical impacts on internal, inter-affiliate or other third-party failures.

*Transition risk*
- Litigation and/or loss of business resulting from a failure to achieve stated objectives, mis-reporting or fiduciary requirements or expectations.
- Failure to manage or understand regulatory requirements leading to non-compliance with applicable regulation.
- Loss of business due to failure to meet investor and client expectations around climate risk considerations.
- Losses from sudden policy or regulatory changes that impact markets.

*Key metrics*
- Number and value of losses associated with operational risk events recorded due to weather related causes.
- Number of incidents recorded due to weather related causes where no loss or impact is recorded but used to provide an indication of trend in noted incidents and hence potential risk, which are reported through enterprise resiliency reporting monthly.
- Number of third parties with higher risk physical and reputation risks.
- Percentage of employees located in physical locations identified as being potentially higher risk.

***Credit risk***

This is the risk of loss if any of our borrowers or other counterparties were to default on their obligations to us. Credit risk is present in the majority of our assets, but primarily concentrated in the loan and securities books, as well as foreign exchange and off-balance sheet exposures such as lending commitments, letters of credit and securities lending indemnifications. Key vulnerabilities due to both physical and transitional risks may exist in relation to exposures to:

- Direct credit provision or the purchase of assets issued by corporates operating in industries or geographies vulnerable to structural change or physical risk events;
- Impacts on collateral valuations due to physical events or changes in market demands; and
- Holding of corporate bonds within the Company's own portfolio of assets - whose valuations may be impacted by physical or transitional risks.

***Market risk***

Market risk relates to the potential loss in value for the BNY Mellon financial portfolio caused by adverse movements in market prices of foreign exchange, fixed income and equity assets, credit spreads, commodities and liabilities accounted for under fair value and equivalent methods.

An example of physical risk includes losses driven by changes in market risk factors from systemic market changes in case of natural disasters or weather events.

An example of transition risk includes losses driven by changes in market risk factors from systemic market changes in case of changes in market perception of future profitability for underlying issuers of positions held on balance sheet by BNY Mellon.

**Risk management - continued**

***4. Metrics and targets - continued***

***Liquidity risk***

Liquidity risk is 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 the inability to convert assets to cash, the inability to raise cash in the markets, deposit run-off or contingent liquidity events.

*Physical risks*
- Changes in value of corporate bonds within the portfolio of assets held by BNY Mellon to support liquidity management whose valuations may be impacted by physical risk events.
- Outflows of cash due to client demands following physical risk events.

*Transition risk*
- Changes in value of corporate bonds within the portfolio of assets held by BNY Mellon to support liquidity management whose valuations may be impacted by market changes in perception of value.

*Key metric*
- Stress impact on liquidity metrics based on a designated NGFS climate scenario.

***Performance against set metrics***

An important component of managing our climate-related risks and opportunities is measuring and monitoring our performance. In 2019, BNY Mellon launched five-year targets and goals informed by the topics identified in our most recent materiality assessment:

- Reduce our Scope 1 and Scope 2 GHG emissions by 20% from a 2018 base year;
- Maintain our carbon neutrality commitment;
- Divert 80% of office waste from landfills;
- Target zero waste to landfills for technology equipment;
- Achieve paper neutrality across our operations; and
- Drive water use reduction in building operations.

We have met or continue to make progress toward these targets and goals. In 2022, we successfully diverted 72% of office waste from landfills, met our target of diverting 100% of technology waste from landfills, maintained paper neutrality globally, and reduced total water consumption by 49% (relative to a 2015 baseline). In 2023, we met our commitment to maintain carbon neutrality in our operations on an annual basis, which we have done successfully for nine consecutive years by reducing energy consumption through investments in energy efficiency, procuring renewable electricity, and purchasing carbon offsets to compensate for any remaining emissions from our global real estate and data center footprint.

We achieved 20% reduction in our Scope 1 and Scope 2 emissions for the first time in 2020 and have maintained or exceeded the reduction target in each year since, with 32% reduction relative to our 2018 baseline at year end 2022. In 2023, we conducted an in-depth review, and we are now working towards delivering GHG emissions reductions in relevant areas of our Scope 1 and Scope 2 operational emissions and on-balance sheet Scope 3 financed emissions consistent with 1.5°C pathways by 2030. This approach reflects our commitment to resiliency and sustainability across our business activities and operations, that is grounded on data, analysis and execution.

As our climate strategy continues to evolve, we will review and revise, as needed, the climate-related metrics and targets that we use to monitor our progress.

***Streamlined Energy & Carbon Reporting ("SECR")***

In accordance with the Companies Regulations 2018, the Company is in scope as a large unquoted entity. However, the Company qualifies as a 'low energy user' as defined by the Regulations and accordingly is not required to disclose its energy use and associated greenhouse gas ('GHG') emissions.

***Capital management***

The Company assesses and monitors its capital adequacy in accordance with the Basel Framework on the basis of Pillar 1 and Pillar 2 capital requirements. Both regulatory prescribed and internally assessed capital requirements are subject to internally defined, Board approved, Risk Appetite metrics.

The Company's Internal Capital Adequacy Assessment Process ("ICAAP") document outlines the regulatory and internally assessed capital requirements for the Company at the consolidated level. The Company has an established ICAAP framework, including the development, review, challenge, and adoption of, the underlying procedures and methods/models used for ongoing capital assessments, which includes a quarterly capital assessment process, a semi-annual capital stress testing process, and the production of the annual ICAAP document.

The Company ensures its capital base exceeds the minimum requirements set by the regulator (as prescribed by the Capital Requirements Directive and Capital Requirements Regulation) through daily monitoring and ensures its capital base exceeds the internally assessed capital requirement through quarterly monitoring.

The Company's capital planning process incorporates regulatory capital requirements, economic capital modelling, and capital stress testing. The capital stress tests, initially based on the underlying financial forecast, are prepared by Capital Adequacy with support provided by other subject matter expert ("SME") functions. Capital stress tests are then approved by the CSTC, the EMEA Asset and Liability Committee ("ALCO"), the ExCo, and the Board of Directors.

The Pillar 3 disclosures for the Company are published on BNY Mellon's website at https://www.bnymellon.com/us/en/investor-relations/regulatory-filings.html. These disclosures provide additional information on the Company's risk management framework and management of regulatory capital. An analysis of the Company's solo-consolidated capital resources and Pillar 1 capital resources requirement is provided in note 32 "Capital resources and requirement".

**Employees**

Although the Company operates an outsourced operating model and has no employees, it remains focused on the culture of the broader BNY Mellon employees who support its outsourced operations, the development of those employees and to contribute to the BNY Mellon Global People Strategy. In 2023 the Company continued to focus on its culture, develop its talent and deliver growth of its people. With a renewed focus on three strategic pillars at an enterprise level, (Be more for our clients; Run Our Company Better; and Power Our Culture) the Company has continued to focus on improved employee experience and engagement with an emphasis on greater collaboration, skills, and career development. This has been amplified through mentoring programmes such as the Shadow ExCo initiative, which has operated for a number of years and has helped to strengthen the diversity of the Company's succession benches.

The Board receives regular updates from The People Team, addressing the outcomes of the Company's people agenda. Throughout the year, these updates focused on the engagement of its people resource and insight into the impact and outcome of a number of strategic initiatives; these included the Company's change agenda, our focus on in-office working and collaboration, talent – including a focus on increasing our graduate intake over 2023 and into 2024, wellbeing, attrition, recruitment, and overall culture within the Company as we seek to Power our culture.

BNY Mellon is also committed to providing relevant training and development opportunities through the launch of BK Learning, to include achievement of professional qualifications, to enable each employee to successfully fulfil their job responsibilities, build future skills, and in addition, meet regulatory requirements. The Company adheres to the principles of Equal Employment Opportunity and is committed to facilitating employment opportunities for people with disabilities.

**Country-by-Country Reporting disclosures**

Institutions are required to publish details of their income, employment, profits, taxation and any public subsidies on a country by country basis under the Capital Requirements Regulations 2013.

The regulation requires institutions to report the following information:

a) Nature of activities and geographical location (see 'Principal activities' on page 9 and disclosure note 12 on page 73);
b) Turnover (see disclosure note 12 on page 73);
c) Number of employees on a full time equivalent basis (see disclosure note 12 on page 73);
d) Profit before taxation (see disclosure note 12 on page 73);
e) Tax on income (see disclosure note 12 on page 73); and
f) Public subsidies received (not applicable).

**Directors**

The directors who served during the year and up to the date of the report were as follows:

| | Appointed | Resignation |
|---|---|---|
| P Bergamaschi Broyd | - | - |
| P A Davies | 1 August 2023 | - |
| M J Dodds | - | - |
| G A Efthimiou | - | - |
| J W Jack | - | 31 December 2023 |
| J M Johnston | - | 31 December 2023 |
| H Kablawi | - | - |
| M A Murphy | - | - |
| M K Sarvaiya | 22 March 2023 | - |
| R C Savchuk | 31 January 2023 | - |

**Directors' indemnity provision**

The articles of association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the year but have not been utilised by the directors (2022: none utilised).

**Post balance sheet events**

There are no post balance sheet events requiring disclosure.

# The Bank of New York Mellon (International) Limited

## Directors' report

**Disclosure of information to auditor**

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

Robin Savchuk

Robin Savchuk (Apr 19, 2024 15:09 GMT+1)

R C Savchuk
Director

The Bank of New York Mellon (International) Limited
160 Queen Victoria Street
London
EC4V 4LA

19 April 2024

Registered number: 03236121

# The Bank of New York Mellon (International) Limited

## Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards in conformity with the requirements of the Companies Act 2006 and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: Reduced Disclosure Framework (“FRS 101”).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's corporate and financial information. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG

# Independent auditor's report

## To the members of The Bank of New York Mellon (International) Limited

### 1. Our opinion is unmodified

We have audited the financial statements of The Bank of New York Mellon (International) Limited ("the Company") for the year ended 31 December 2023 which comprise the statements of profit and loss, other comprehensive income, balance sheet, changes in equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

— give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its profit for the year then ended;

— have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and

— have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 14 March 2008 prior to the company becoming a public interest entity. The period of total uninterrupted engagement is for the sixteen financial years ending 31 December 2023. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

| Overview | | |
|---|---|---|
| **Materiality:** financial statements as a whole | £2.6m (2022: £1.9m)<br>1.0% (2022: 0.9%) of total revenue | |
| **Key audit matters** | | **vs 2022** |
| **Recurring risk** | Revenue recognition –<br>• Interest receivable and similar income.<br>• Fees and commission receivable. | ◄► |

## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2022) in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

| | The risk | Our response |
|---|---|---|
| **Revenue Recognition**<br><br>Interest receivable and similar income<br><br>(£368.8 million; 2022: £163.5 million)<br><br>Fees and commissions receivable<br><br>(£139.0 million; 2022: £133.7 million)<br><br>*Refer to note 1.8 & 1.9 (accounting policy) and note 4 & 5( financial disclosures).* | Recognition of ‘interest receivable and similar income’ and ‘fees and commissions receivable’:<br><br>Interest receivable and similar income –<br><br>Historically, certain controls related to the set-up of interest rates in the cash management process were not designed to prevent or detect errors on a timely basis. Consequently, there was an increased risk that interest rates were incorrectly set up and applied in the cash management system, potentially resulting in an incorrect accrual of interest income. During the year, the control deficiencies were rectified, but the operation of these controls did not cover activity throughout the year. As a result of the control deficiencies identified, additional substantive procedures were required over an increased sample size. This resulted in greater audit effort.<br><br>Fees and commissions receivable –<br><br>Historically, certain controls related to asset servicing fees and commissions billing were not designed to prevent or detect errors on a timely basis. Consequently, there was an increased risk that fee rates were not applied correctly, leading to incorrect revenue recognition. During the year, the control deficiencies were rectified, but the assessment of their operating effectiveness was completed later in the audit. As a result of the control deficiencies identified, additional substantive procedures were required over an increased sample size. This resulted in greater audit effort.<br><br>Revenue from ‘interest receivable and similar income’, as well as ‘fees and commission receivable’, are not subject to significant estimation or judgement, and we have not identified a significant risk due to error or fraud. | We performed walkthroughs and risk assessment procedures to understand the revenue recognition process, in accordance with the requirements of the applicable accounting standards. Given the highly automated nature of certain processes, we engaged our IT specialists as an integral part of the core financial audit team to conduct testing over the relevant general IT and application controls.<br><br>Due to the control deficiencies identified over ‘interest receivable and similar income’, as well as ‘fees and commission receivable’, greater substantive testing was undertaken, resulting in increased substantive sample sizes.<br><br>Test of detail:<br><br>Interest receivable and similar income –<br><br>— For a sample of interest receivable recognised, we agreed the interest rates to supporting documentation and performed recalculations. Where the contractual terms specified the use of a floating rate, we independently sourced the data.<br><br>Fees and commissions receivable –<br><br>— For a sample of asset servicing revenue invoices, we agreed the fee rates applied to the customer contracts, performed recalculations of the invoice amount, and agreed, where relevant, to subsequent cash receipts.<br><br>Our results<br><br>— The results of our testing were satisfactory and we considered ‘interest receivable and similar income’, and ‘fees and commission receivable’ to be acceptable (2022: acceptable) |

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## 3. Our application of materiality and an overview of the scope of our audit

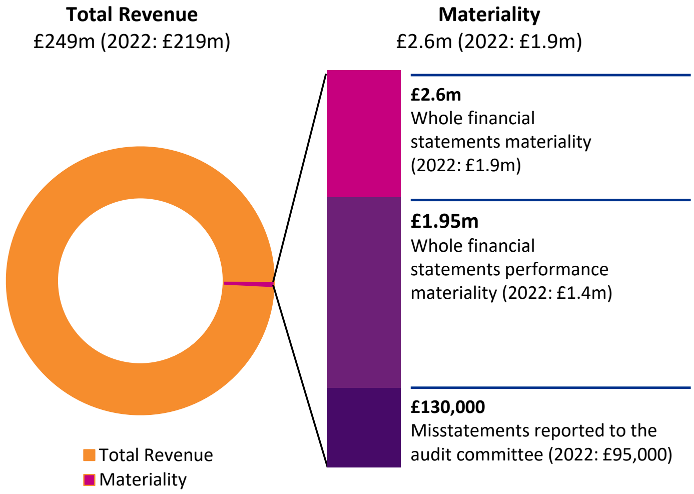
Materiality for the financial statements as a whole was set at £2.6 million (2022: £1.9 million), determined with reference to a benchmark of total revenue, of which it represents 1.0% (2022: 0.9%). We consider total revenue to be the most appropriate benchmark and a stable year on year measure.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2022: 75%) of materiality for the financial statements as a whole, which equates to £1.95 million (2022 : £1.4 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £130,000 (2022: £95,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.

The scope of the audit work performed was a mixture of controls reliance and substantive procedures. Where we could only place limited reliance upon the Company's internal controls over financial reporting such as interest receivable, the scope of the audit work was predominately substantive.




## 4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

— The availability of funding and liquidity, in the event of a market wide stress scenario and other uncertainties on the business; and

— The impact on regulatory capital requirements in the event of an economic slowdown or recession.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

We considered whether the going concern disclosure in the financial statements gives a full and accurate description of the director's assessment of going concern.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and

— we found the going concern disclosure on pages 43 and 44 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

KPMG

## 5. Fraud and breaches of laws and regulations – ability to detect

*Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee and internal audit as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit committee minutes.
- Using analytical procedures to identify any usual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. We have evaluated the control deficiencies identified and believe that these are not indicative of fraud.

On this audit we do not believe there is a fraud risk related to revenue recognition, because there is limited complexity and it is not subject to significant estimation or judgement. We did not identify any additional fraud risks.

We also performed procedures identifying journal entries based on risk criteria and compared the identified entries to supporting documentation. These included entries posted with specified key words, those posted to unusual accounts, those posted by individuals who infrequently post entries and material post-closing journals.

*Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: client assets and money, regulatory capital and liquidity, data protection laws, criminal finances, anti-bribery, employment law, sanctions and anti-money laundering recognizing the financial and regulated nature of the Company's business. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management, and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

*Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. **We have nothing to report on the strategic report and the directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

— we have not identified material misstatements in those reports;

— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. **We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

— the financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. **Respective responsibilities**

*Directors' responsibilities*

As explained more fully in their statement set out on page 31, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

*Auditor's responsibilities*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Digitally signed by Nicholas JOHN Edmonds
Date: 2024-04-22 17:24:30+01:00

**Nicholas Edmonds (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square London,

United Kingdom E14 5GL

22 April, 2024

KPMG

# The Bank of New York Mellon (International) Limited

## Statement of profit and loss
**for the year ended 31 December 2023**

| | Note | 2023 £000 | 2022 £000 |
|---|---|---|---|
| Interest receivable and similar income | 4 | 368,769 | 163,522 |
| Interest payable and similar charges | 4 | (269,549) | (92,414) |
| **Net interest income** | | 99,220 | 71,108 |
| Fees and commissions receivable | 12 | 139,362 | 133,709 |
| Net foreign exchange translation loss | | (337) | (1,268) |
| Other operating income | 6 | 10,802 | 14,993 |
| **Non-interest income** | | 149,827 | 147,434 |
| Income from investments in affiliates | 7 | 17,516 | 22,155 |
| **Total income** | | 266,563 | 240,697 |
| Administration expenses | 8, 9 & 10 | (167,758) | (171,390) |
| Change in ECL on financial assets | | (283) | (124) |
| **Total operating expenses** | | (168,041) | (171,514) |
| **Profit before taxation** | | 98,522 | 69,183 |
| Taxation on profit | 11 | (38,209) | (18,870) |
| **Total profit for the financial year** | | 60,313 | 50,313 |

Notes 1 to 34 are integral to these financial statements.

All items dealt with in arriving at the Company's results for the financial year and prior year relate to continuing operations.

# The Bank of New York Mellon (International) Limited

## Other comprehensive income

**for the year ended 31 December 2023**

| | Note | 2023<br>£000 | 2022<br>£000 |
|---|---|---|---|
| **Profit for the financial year** | | 60,313 | 50,313 |
| Items that are or may be reclassified subsequently to profit or loss: | | | |
| Movement in assets measured at fair value through other comprehensive income (“FVOCI”) | | 42,230 | (90,166) |
| Change in Expected Credit losses ("ECL") on financial assets measured at FVOCI | | 15 | (22) |
| Related tax | 11 | (11,833) | 25,051 |
| **Other comprehensive income/(loss), net of income tax** | | 30,412 | (65,137) |
| **Total comprehensive income/(loss) for the year** | | 90,725 | (14,824) |

Notes 1 to 34 are integral to these financial statements.

# The Bank of New York Mellon (International) Limited

## Balance sheet
**at 31 December 2023**

| | Note | 2023 £000 | 2022 £000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | 14 | 3,781,275 | 4,706,360 |
| Loans and advances to banks | 15 | 1,645,021 | 2,520,019 |
| Loans and advances to customers | 16 | 108,153 | 138,345 |
| Investment securities | 17 | 3,072,747 | 4,054,942 |
| Investments in affiliates | 18 | 181,821 | 188,620 |
| Intangible assets | 19 | 209 | 12 |
| Tangible fixed assets | 20 | 65 | 1 |
| Deferred tax asset | 21 | 15,014 | 26,967 |
| Prepayments and accrued income | 22 | 58,804 | 44,398 |
| Other assets | 23 | 33,543 | 22,380 |
| **Total assets** | | 8,896,652 | 11,702,044 |
| **Liabilities** | | | |
| Deposits by banks | 24 | 3,297,200 | 4,164,947 |
| Customer accounts | 25 | 4,583,519 | 6,631,188 |
| Other liabilities | 26 | 30,819 | 28,159 |
| Accruals and deferred income | 29 | 26,455 | 9,641 |
| Provisions | 30 | 4,606 | 4,753 |
| **Total liabilities** | | 7,942,599 | 10,838,688 |
| **Capital and reserves** | | | |
| Called up share capital | 31 | 519,695 | 519,695 |
| Fair value reserve | | (37,213) | (67,625) |
| Other reserves | | 7,139 | 7,139 |
| Profit and loss account | | 464,432 | 404,147 |
| **Shareholder's funds** | | 954,053 | 863,356 |
| **Total liabilities and shareholder's funds** | | 8,896,652 | 11,702,044 |

Notes 1 to 34 are integral to these financial statements.

The financial statements were approved by the Board of Directors and were signed on its behalf by:

Robin Savchuk
Robin Savchuk (Apr 19, 2024 15:09 GMT+1)

R C Savchuk
Director

19 April 2024
Registered number: 03236121

# The Bank of New York Mellon (International) Limited

## Statement of changes in equity
**For the Year Ended 31 December 2023**

| | Called up Share capital | Fair value reserve | Other reserves | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 January 2022 | 519,695 | (2,488) | 7,150 | 353,823 | 878,180 |
| Profit for the year | - | - | - | 50,313 | 50,313 |
| Movement in debt instruments measured at FVOCI | - | (90,166) | - | - | (90,166) |
| ECL on financial assets measured at FVOCI | - | (22) | - | - | (22) |
| Tax on other comprehensive income | - | 25,051 | - | - | 25,051 |
| Total comprehensive income for the period | - | (65,137) | - | 50,313 | (14,824) |
| Transfer between reserve accounts | - | - | (11) | 11 | - |
| **Balance at 31 December 2022** | 519,695 | (67,625) | 7,139 | 404,147 | 863,356 |

| | Called up Share capital | Fair value reserve | Other reserves | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| Balance at 1 January 2023 | 519,695 | (67,625) | 7,139 | 404,147 | 863,356 |
| Profit for the year | - | - | - | 60,313 | 60,313 |
| Movement in debt instruments measured at FVOCI | - | 42,230 | - | - | 42,230 |
| ECL on financial assets measured at FVOCI | - | 15 | - | - | 15 |
| Tax on other comprehensive income | - | (11,833) | - | - | (11,833) |
| Total comprehensive income for the period | - | 30,412 | - | 60,313 | 90,725 |
| Dividend in specie | - | - | - | (28) | (28) |
| **Balance at 31 December 2023** | 519,695 | (37,213) | 7,139 | 464,432 | 954,053 |

### 1 Accounting policies

### 1.1 Basis of preparation and statement of compliance with FRS 101

The Company is a private company limited by shares incorporated and domiciled in the UK and registered in England and Wales. The registered address is given on page 1.

These financial statements were prepared in accordance with FRS 101.

The Company's ultimate parent undertaking, The Bank of New York Mellon Corporation includes the Company and all its subsidiary undertakings in its consolidated financial statements. The consolidated financial statements of The Bank of New York Mellon Corporation are prepared in accordance with U.S. Generally Accepted Accounting Principles, which are considered equivalent to International Reporting Standards (Adopted IFRSs). The Bank of New York Mellon Corporation's consolidated financial statements are available at https://www.bnymellon.com/us/en/investor-relations/overview.html. Accordingly the Company is a qualifying entity for the purpose of FRS 101 disclosure exemptions.

Therefore, in preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 (Adopted IFRSs), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Statement of cash flows and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly-owned subsidiaries; and
- Disclosures in respect of revenue contracts with customers and related significant judgements.

As the consolidated financial statements of The Bank of New York Mellon Corporation include equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.23.

## 1 Accounting policies - continued

### 1.2 Changes in accounting policies

**New and amended accounting standards and interpretations**

#### 1.2.1 New standards, interpretations and amendments effective on or after 1 January 2023

- Disclosure of Accounting Policies (Amendments to IAS 1 & IFRS Practice Statement 2).

  The Company adopted Disclosure of Accounting Policies (Amendments to IAS 1 & IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

  The amendments require disclosure of "material" rather than "significant" accounting policies. They also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity specific accounting policy information that users need to understand other information in the financial statements.

  Management reviewed the accounting policies and made updates to the information disclosed in the Accounting policies note to the extent applicable in line with the amendments.

- International Tax Reform – Pillar II Model Rules (Amendments to IAS 12).

  The Company has adopted International Tax Reform – Pillar II Model Rules (Amendments to IAS 12) upon its release on 23 May 2023. The amendments provide a temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about Pillar II exposures (see Note 11 Taxation).

  The mandatory exception applies retrospectively. However, because no new legislation to implement the top-up tax was enacted or substantively enacted as at 31 December 2022 in any jurisdiction in which the Company operates and no related deferred tax has been recognised in the comparatives and therefore the retrospective application has no impact on the Company's financial statements.

The standards below were effective on or after 1 January 2023 but did not have a material impact on the Company's financial statements.

- Definition of Accounting Estimates (Amendments to IAS 8).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- IFRS 17, 'Insurance contracts' as amended in December 2021 and related amendment to FRS 101 reduced disclosure framework.

### 1 Accounting policies - continued

### 1.2 Changes in accounting policies - continued

#### 1.2.2 New standards, interpretations and amendments not yet effective

The Company has not early adopted any new standard, interpretations and amendments not yet effective as at 31 December 2023. However, they are not expected to have a material impact on the Company's financial statements.

- Non-current liabilities with Covenants (Amendments to IAS 1) – effective 1 January 2024
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1) – effective 1 January 2024
- Lease liability in a Sale and Leaseback (Amendments to IFRS 16) – effective 1 January 2024
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) – effective 1 January 2024
- Lack of Exchangeability (Amendments to IAS 21) – effective 1 January 2025
- Sale or Contribution of Assets between an investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) – Available for optional adoption/effective date deferred indefinitely.

### 1.3 Exemption from preparation of group financial statements

As noted in section 1.1 above, the Company's ultimate parent company includes the Company in its consolidated financial statements, which are prepared under a basis equivalent to Adopted IFRS. Accordingly, the Company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare group financial statements. Therefore, these financial statements present information about the Company as an individual undertaking and not about its group.

### 1.4 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments measured at fair value.

### 1.5 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 8. In addition, the Directors' report on pages 9 to 30 includes the Company's objectives, policies and processes for managing its capital, its financial risk management objective and its exposures to credit and liquidity risk.

The Company currently holds capital above regulatory capital requirements as at year end (see note 32 "Capital resources and requirement"). Management performs an annual going concern review that considers, under a stress test scenario, the Company's ability to meet its financial obligations as they fall due, for a period of at least twelve months after the date that the financial statements are signed. As a consequence, the directors believe that the Company can manage its business risks successfully.

### 1 Accounting policies - continued

### 1.5 Going concern - continued

The directors have had regard to management's assessment to determine whether there are any material uncertainties arising that could cast significant doubt on the ability of the Company to continue as a going concern and concluded that no such issues exists. In reaching this conclusion, management considered:

- Liquidity position based on current and projected cash resources and regulatory requirements. The Company currently has a 'Liquidity Coverage Ratio' ("LCR") above regulatory requirement that is designed to test short-term resilience to liquidity disruptions;
- Capital and liquidity stress tests on reasonably plausible scenarios. In addition, a significant reduction in revenue and inflationary stress on expenses and maintaining these levels for a period of 12 months from the date of signing the financial statements. Mitigation of the Company's liquidity risk exposure and capital management is discussed in note 2 "Financial risk management" and the "Capital management" section on page 28;
- Reverse stress tests; and
- The Company's operational resilience with respect to existing processes and key resources and relationships such as its people, clients, suppliers, and existing information technology systems and infrastructure.

Based on the above assessment of the Company's financial position, liquidity and capital, the directors have concluded that the Company has adequate resources to continue in operational existence for a period of at least twelve months after the date that the financial statements are signed. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### 1.6 Related party transactions

As the Company is a wholly-owned indirect subsidiary of the ultimate parent company, The Bank of New York Mellon Corporation, it has taken advantage of the exemption contained in FRS 101 and has therefore not disclosed transactions or balances with entities that form part of the Group.

### 1.7 Foreign currency

The Company's functional and presentational currency is GBP. Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are reported net in the Statement of profit and loss and Other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Any resulting exchange differences are reported net in the Statement of profit and loss or Other comprehensive income within interest receivable or payable as appropriate.

### 1.8 Interest receivable and interest payable

Interest receivable and interest payable are recognised in the Statement of profit and loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

## 1 Accounting policies - continued

### 1.8 Interest receivable and interest payable - continued

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Statement of profit and loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on financial assets measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

And other financial assets and liabilities carried at fair value through profit or loss are presented in net income from other financial instruments at fair value through profit or loss.

### 1.9 Revenue from contracts with customers

Fees and commissions earned from the provision of Custody, Trustee and Depositary, Transfer Agency, Fund Accounting, Corporate Trust and Global Liquidity Services are recognised as revenue.

Revenue is based on terms specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Revenue is recognised when, or as, a performance obligation is satisfied by transferring control of a good or service to a customer.

A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognised by measuring the Company's progress in satisfying the performance obligation in a manner that reflects the transfer of goods and services to the customer. Revenue from a performance obligation satisfied at a point in time is recognised at the point in time the customer obtains control of the promised good or service.

The amount of revenue recognised reflects the consideration the Company expects to be entitled to in exchange for the promised goods and services. Taxes assessed by a governmental authority that are both imposed on, and concurrent with, a specific revenue producing transaction, are collected from a customer and are excluded from revenue.

### 1.10 Dividends

Dividends are recognised as a liability when it becomes a legally binding liability for the Company, regardless of date on which it is to be settled. In the case of a final dividend, this will be when it is declared by the directors through a written resolution. For interim dividends, these are recognised when payments are made. Interim dividends declared by the directors but unpaid at the balance sheet date are not considered a liability at the balance sheet date because the directors retain the discretion to cancel them until they are paid and are only disclosed in the notes to the financial statements.

Dividend and similar income is recognised in the Statement of profit and loss on the date the entity's right to receive payments is established.

### 1.11 Taxation

Taxation on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of profit and loss except to the extent that it relates to items recognised directly in equity or Other comprehensive income, in which case it is recognised directly in equity or Other comprehensive income respectively.

### 1 Accounting policies - continued

#### 1.11 Taxation - continued

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable or receivable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### 1.12 Non-derivative financial instruments - classification and measurement

**i) Classification of non-derivative financial instruments**

IFRS 9 Financial Instruments: Recognition and Measurement outlines the requirements for the recognition and measurement of financial assets and liabilities. Financial instruments are initially recognised when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument. IFRS 9 classification of assets is based on two aspects: the business model within which the asset is held (the business model test) and the contractual cash flows of the asset in relation to the solely payments of principal and interest ('SPPI') test.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The Company determines the classification at initial recognition.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such assets include Cash and balances at central banks; loans and advances to banks; and loans and advances to customers.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as measured at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such assets include Investment securities (see Note 17)

**1 Accounting policies - continued**

**1.12 Non-derivative financial instruments - classification and measurement - continued**

All other financial assets are classified as measured at FVTPL.

A financial liability is initially recognised at fair value and in the case of deposits by banks, Customer accounts and other liabilities, net of directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost or FVTPL.

**Business model assessment**

Certain financial assets, for example, deposits with central banks and financial institutions, always will be held for collection of contractual cash flows as the nature of the asset means that it cannot be sold. For other financial assets, the Company makes an assessment of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. Information that is considered includes:

- the stated policies and objectives for the portfolio;
- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated; and
- the frequency and volume of historical and expected sales.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

**Solely payments of principal and interest (SPPI) criteria**

'Principal' for these purposes is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that would change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration for the time value of money e.g., periodic reset of interest rates.

The Company classifies financial assets at amortised cost where the business model is to hold these assets to collect contractual cash flows and the SPPI criteria has been met. Such financial assets include Cash and balances at central banks; loans and advances to banks; and loans and advances to customers. These assets are measured using the effective interest rate method.

### 1 Accounting policies - continued

#### 1.12 Non-derivative financial instruments - classification and measurement - continued

A financial asset is mandatorily classified in this category if it is acquired principally for the purpose of selling in the short term, or if it fails the SPPI test. A financial asset can be classified in this category by choice if so, designated by management at inception. This designation is because the relevant assets and liabilities are managed together, and internal reporting is evaluated on a fair value basis. The Company defines fair value as the price, as at the measurement date, that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

**ii) Initial recognition of non-derivative financial instruments**

All financial assets are initially recognised at fair value plus or minus directly attributable transaction costs on a trade date basis. After initial recognition, financial liabilities are measured at amortised cost or FVTPL.

**iii) Subsequent valuation of non-derivative financial instruments**

Gains and losses arising from changes in the fair value of assets classified as fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of debt instruments classified as fair value through comprehensive income are recognised as other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised as other comprehensive income is recognised in the income statement. Any premium or discount paid on the purchase of securities held at amortised cost is amortised through the income statement using the effective interest rate method.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Other financial liabilities are subsequently measured at cost using the effective interest method.

#### 1.13 Derecognition of financial assets and financial liabilities

***Financial assets***

The Company derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement where either:
- the Company has transferred substantially all the risks and rewards of the asset; or
- the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

***Financial liabilities***

The Company derecognises a financial liability (or, where applicable a part of a financial liability or part of a group of similar financial liabilities) when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of profit and loss, and Other comprehensive income.

### 1 Accounting policies - continued

### 1.14 Impairment of financial assets (including trade and other debtors)

Under IFRS 9, the Company generally recognises loss allowances at an amount equal to 12-month “ECL” (Stage 1, the portion of ECL that results from default events that are possible within 12 months after the reporting date) unless there has been significant increase in credit risk since origination of the instrument, in which case ECLs are recognised on a lifetime loss basis (Stage 2). Exposures that are in default are regarded as credit-impaired (Stage 3) and are also measured on a lifetime ECL basis.

### 1.15 Derivative financial instruments

Derivatives are recorded on the Balance sheet at fair value and include interest rate swaps. Derivatives in an unrealised gain position are recognised as assets while derivatives in unrealised loss position are recognised as liabilities. Derivatives are reported net by counterparty and after consideration of cash collateral, to the extent subject to legally enforceable netting agreements.

All derivatives including those designated and effective in qualifying hedging relationships are classified in other assets or other liabilities on the Balance sheet. Gains and losses on non-qualifying economic hedges including those designated and effective in qualifying hedging relationships are generally included in other income in the statement of profit and loss.

The Company enters into various derivative financial instruments for non-trading purposes primarily as part of the asset/liability management process. These non-trading derivatives are designated as one of three types of hedge activities: fair value, cash flow or net investment hedges. To qualify for hedge accounting, each hedge relationship is required to be highly effective at reducing the risk associated with the exposure being hedged, both prospectively and retrospectively. The Company formally documents all relationships, including hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking each hedging transaction. At inception, the potential cause of ineffectiveness related to each of the hedges is assessed to determine if it is expected that the hedge will be highly effective over the life of the transaction. At hedge inception, the Company documents the methodology to be utilised for evaluating effectiveness on an ongoing basis and monitors this periodically.

**Fair value hedges**

When a derivative is designated as the hedging instrument in a hedge of change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in in profit or loss. If the hedged item would otherwise be measured at amortised cost, then its carrying amount is adjusted accordingly. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss at the point of derecognition.

The Company has not entered into any cashflow or net investment hedges as at 31 December 2023. Derivative amounts affecting the Statement of profit and loss are recognised in the same income statement line as the hedged item.

See note 27 for additional disclosures related to derivative financial instruments.

### 1 Accounting policies - continued

### 1.16 Repurchase and Reverse Repurchase agreements

Reverse repurchase agreements and similar transactions are a form of secured lending whereby the Company provides a loan or cash collateral in exchange for the transfer of collateral, generally in the form of marketable securities subject to an agreement to transfer the securities back at a fixed price in the future. Repurchase agreements are where the Company obtains such loans or cash collateral, in exchange for the transfer of collateral. The collateral exchanged is in the form of highly liquid and includes marketable securities.

The Company purchases securities subject to a commitment to resell or return them (reverse repurchase agreement). These securities are not included in the Balance sheet as the Company does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as an asset measured at amortised cost unless it is designated or mandatorily at fair value through profit and loss and is reported under Loans and advances to banks.

The Company may also sell securities (a repurchase agreement) subject to a commitment to repurchase or redeem them. The securities are retained on the Balance sheet as the Company retains substantially all the risks and rewards of ownership. Consideration received (or cash collateral provided) is accounted for as a financial liability at amortised cost unless it is designated at fair value through profit and loss.

Securities purchased under resale agreements and securities sold under repurchase agreements are accounted for as collateralised financing and are reported under Deposits by banks on the Balance sheet. Generally, these agreements are recorded at the amounts at which the securities will be subsequently resold or repurchased, plus accrued interest. Securities purchased under resale agreements are fully collateralised with high-quality liquid securities. Collateral requirements are monitored, and additional collateral is received or provided, as required. Where an enforceable netting agreement exists, resale and repurchase agreements executed with the same counterparty and the same maturity date are reported on a net basis on the Balance sheet. See note 28 for additional disclosures related to repurchase agreements.

### 1.17 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Balance sheet when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IAS 1 and other relevant standards.

### 1.18 Intangible assets

Intangible assets relate to purchased relationships and computer software acquired by the Company at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is charged to the Statement of profit and loss on a straight-line basis over the estimated useful lives of the intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful life of the intangible assets is between 5 and 10 years.

**1 Accounting policies - continued**

**1.19 Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the Statement of profit and loss, and of Other comprehensive income on a straight-line basis over the estimated useful lives of the tangible fixed assets. The estimated useful lives are as follows:

| | |
|---|---|
| • Fixtures and fittings | 10 years |
| • Computer equipment | 4 years |
| • Leasehold improvements | 10 years or the period of the lease, whichever is shorter |

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

**1.20 Investments in affiliates**

Investments in associates and subsidiaries are carried at cost less impairment.

**Impairment of non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit ("CGU") exceeds its estimated recoverable amount. Impairment losses are recognised in Profit and loss account. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods on assets other than goodwill are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 1 Accounting policies - continued

### 1.21 Provisions

A provision is recognised in the Balance sheet when the Company has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

### 1.22 Classification of instruments issued by the Company

Ordinary shares issued by the Company are treated as equity as they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company.

### 1.23 Accounting estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions about future conditions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

#### a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included below.

- Note 2.1: establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of expected credit loss ("ECL") allowance and selection and approval of models used to measure ECL allowance.

- Note 1.12: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

#### b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a risk of resulting in a material adjustment for the year ended 31 December 2023 is included below:

- The Company determines whether investments in affiliates are impaired at a minimum on an annual basis. This requires the determination of the investments' recoverable amounts i.e., their net assets or the estimation of the value-in-use of the cash generating units ("CGU") to which the investments in affiliates are allocated and belong to. Estimating a value-in-use amount requires management to make an approximation of the expected cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. However as at 31 December 2023, no impairment triggers were identified. Further details of investments in affiliates are disclosed in note 18.

### 2 Financial risk management

The Company's objectives in respect of risk management are to ensure that, at all times, it satisfies the requirement of maintaining a balance sheet demonstrating the characteristics of high liquidity and high credit quality assets, and to maintain a robust and independent risk management function.

Through its normal operations, the Company is exposed to a number of risks and management of these risks is central to the Company's activities. There are independent risk management functions with responsibility for the management of all forms of risk as well as a control infrastructure provided by Internal Control units within each of the businesses.

#### *2.1 Credit risk*

Credit risk mitigation is a technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection. The Company's credit risk is managed in line with BNY Mellon's risk appetite to minimise losses whilst identifying future potential risks.

The Company has a liability-driven balance sheet and typically engages in the provision of custody services to its clients. The Company generates credit exposure in the following forms:

- Client Lending: Credit facilities are provided on an advised but uncommitted basis to some investment trusts. Unadvised, uncommitted intraday and overnight internal guidance facilities may be provided in support of asset servicing operational activity (such as trade settlement, cash wire activity, foreign exchange trading, etc.) subject to client credit quality and contractual documentation.

- Nostros: Credit exposure may arise from the Company's balances maintained in direct nostro accounts, typically with sub-custody networks of other banks within the BNY Mellon Group.

- Daylight/Intraday Credit Exposure: Daylight (or intraday) limits facilitate client activity for various businesses and products. Intraday credit exposure is derived from timing differences arising from operational processes and/or settlement activity that results in the extension of credit. Additional intraday credit exposure can arise from the credit approval of a transaction for which no approved limit exists or the transaction exceeds the approved limits, if approved on an exceptional basis, where the exposure is expected to clear by the end of the business day.

- Cash Placements: This is when the Company deposits funds with, or purchases certificates of deposits issued by, other banks.

- Securities: Exposure through the Company's securities portfolio of high-quality liquid assets (Sovereign & sub-Sovereign Debt, Supranational Debt and Covered Bonds).

All counterparties with which the Company deals are subject to detailed credit analysis and all exposure is based on credit quality derived from a relevant credit risk rating system and reviewed at least annually. All credit facilities are subject to independent analysis by credit risk staff and all excess approvals are at the discretion of the Credit Group within an appropriately delegated authority. All excesses to established limits are monitored closely for relevant approvals and reported as required to the relevant business and risk management units. Metrics supporting the management of credit risk are reviewed and reported to the Company's senior management on a monthly basis.

Facilities typically reset daily and are based on a conservative percentage of the value of assets under custody. All assets are revalued daily to reflect market valuations.

## 2 Financial risk management - continued

*Credit quality analysis*

| | 2023 | | | | 2022 |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total | |
| | £000 | £000 | £000 | £000 | £000 |
| **Cash and balances at central banks** | | | | | |
| Grade 2-4: Excellent | 3,768,520 | - | - | 3,768,520 | 4,691,323 |
| Grade 5-7: Very good | 7,132 | - | - | 7,132 | 9,000 |
| Grade 8-10: Good | - | - | - | - | 98 |
| Grade 11-13: Fair | 5,713 | - | - | 5,713 | 6,045 |
| | 3,781,365 | - | - | 3,781,365 | 4,706,466 |
| Loss allowance | (90) | - | - | (90) | (106) |
| Carrying amount | 3,781,275 | - | - | 3,781,275 | 4,706,360 |
| **Loans and advances to banks at amortised cost** | | | | | |
| Grade 2-4: Excellent | 1,460,220 | - | - | 1,460,220 | 2,234,704 |
| Grade 5-7: Very good | 184,807 | - | - | 184,807 | 285,355 |
| | 1,645,027 | - | - | 1,645,027 | 2,520,059 |
| Loss allowance | (6) | - | - | (6) | (40) |
| Carrying amount | 1,645,021 | - | - | 1,645,021 | 2,520,019 |
| **Loans and advances to customers at amortised cost** | | | | | |
| Grade 1: Exceptional | 3,121 | - | - | 3,121 | 2,116 |
| Grade 2-4: Excellent | 80,221 | - | - | 80,221 | 50,553 |
| Grade 5-7: Very good | 24,064 | - | - | 24,064 | 30,581 |
| Grade 8-10: Good | 31 | - | - | 31 | 25,706 |
| Grade 11-13: Fair | 716 | - | - | 716 | 29,389 |
| | 108,153 | - | - | 108,153 | 138,345 |
| Loss allowance | - | - | - | - | - |
| Carrying amount | 108,153 | - | - | 108,153 | 138,345 |
| **Investment securities measured at FVOCI *** | | | | | |
| Grade 1: Exceptional | 2,279,927 | - | - | 2,279,927 | 2,925,478 |
| Grade 2-4: Excellent | 701,715 | - | - | 701,715 | 1,003,259 |
| Grade 5-7: Very good | 53,645 | - | - | 53,645 | 88,772 |
| Fair value | 3,035,287 | - | - | 3,035,287 | 4,017,509 |
| **Investment securities measured at amortised cost** | | | | | |
| Grade 1: Exceptional | 37,460 | - | - | 37,460 | 37,433 |
| Carrying amount | 37,460 | - | - | 37,460 | 37,433 |

* ECL with respect to investment securities measured at FVOCI amounted to £22,000 (2022: £37,000).

All amounts exposed to credit risk in 2022 as shown in the table above had a 12 month ECL applied to them.

## 2 Financial risk management - continued

***Loans and advances to banks and customers***

None of the loans and advances were past due or had a material ECL at the current or prior year-end.

***Loans and advances to customers***

The Company in its ordinary course of business provides overdraft facilities (in the form of guidance lines) to its customers, to facilitate their securities settlements where market cycles differ or where settlements fail for other securities-related reasons. Significant overdrafts are escalated in line with the Company's risk appetite. In limited cases, documented uncommitted credit facilities are also provided to investment vehicles for gearing purposes. Each case is independently credit assessed and advances are limited to a modest percentage of assets held in custody with the Company. All overdrafts are repayable on demand and are unsecured, although standard custody documentation includes a right of lien over the custody assets.

Based on the credit exposures existing as at 31 December 2023 there had been no instances (2022: none) where:

- the Company waived material financial covenants or agreed to temporary relaxation of repayment terms which were subsequently cured; or
- the Company agreed to provide temporary facilities beyond the terms upon which the facilities were intended to operate.

***Commitments***

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Company is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Company monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. As at the end of December 2023, the Company had unused commitements totalling £155,770,000 (2022: £203,700,000).

**Concentration of risks of financial assets with credit risk exposure**

***Concentration of risk by geographical location***

The following table represents loans and advances to banks by geographical location:

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| **Loans and advances to banks** | | |
| United Kingdom | 823,016 | 1,020,319 |
| United States | 526,315 | 1,132,990 |
| Germany | 190,516 | 226,638 |
| Belgium | 104,617 | 137,955 |
| Japan | 557 | 2,117 |
| | 1,645,021 | 2,520,019 |

## 2 Financial risk management - continued

| | 2023 £000 | 2022 £000 |
|---|---|---|
| **Loans and advances to customers** | | |
| United Kingdom | 108,136 | 122,419 |
| Other - mainly Cayman Islands | 17 | 15,926 |
| | 108,153 | 138,345 |

***Concentration of risk by industry sector***

| | 2023 £000 | 2022 £000 |
|---|---|---|
| **Loans and advances to banks** | | |
| Banks | 1,645,021 | 2,520,019 |
| Amounts include: | | |
| - unsubordinated | 1,626,286 | 2,494,944 |
| - subordinated | 721 | - |
| | 1,627,007 | 2,494,944 |

| | 2023 £000 | 2022 £000 |
|---|---|---|
| **Loans and advances to customers** | | |
| Financial intermediaries | 107,410 | 101,675 |
| Pension funds | 31 | 836 |
| Other financial corporations | 712 | 35,834 |
| | 108,153 | 138,345 |

| | 2023 £000 | 2022 £000 |
|---|---|---|
| **Investment securities** | | |
| Central government | 237,690 | 577,477 |
| Credit institutions | 2,637,347 | 3,215,214 |
| Other financial corporations | 197,710 | 262,251 |
| | 3,072,747 | 4,054,942 |

The exposures set out above are based on net carrying amounts as reported in the Balance sheet and represent the gross credit risk exposure to the Company as at 31 December 2023 and 2022, without taking account of any collateral held or other credit enhancements attached. The amounts at the reporting date are indicative of the amounts at risk throughout the period.

***Loss allowance***

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

### 2 Financial risk management - continued

| | 2023 | | | | 2022 |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | Total | 12-month ECL |
| | £000 | £000 | £000 | £000 | £000 |
| **Cash and balances at central banks** | | | | | |
| Balance at 1 January | 106 | - | - | 106 | 35 |
| Increase/(Decrease) in ECL | (16) | - | - | (16) | 71 |
| Balance 31 December | 90 | - | - | 90 | 106 |
| **Loans and advances to banks at amortised cost** | | | | | |
| Balance at 1 January | 40 | - | - | 40 | 9 |
| Increase/(Decrease) in ECL | (34) | - | - | (34) | 31 |
| Balance 31 December | 6 | - | - | 6 | 40 |
| **Investment securities measured at FVOCI** | | | | | |
| Balance at 1 January | 37 | - | - | 37 | 15 |
| Increase/(Decrease) in ECL | (15) | - | - | (15) | 22 |
| Balance 31 December | 22 | - | - | 22 | 37 |

ECL relating to trade receivables is discussed in note 23.

***Inputs into measurement of ECL***

The key inputs into the measurement of ECL are:

- probability of default (“PD”);
- loss given default (“LGD”); and
- exposure at default (“EAD”).

The Company leverages BNY Mellon Group statistical models for derivation of these Point-in-Time (“PiT”) parameters, which are derived using forward-looking macroeconomic variables as described below.

The Company measures ECL considering the risk of default over the maximum contractual period for which it is exposed to risk or, where no contractual period is stated, the period over which the Company could liquidate or otherwise limit its exposure.

**2 Financial risk management - continued**

***Significant increase in credit risk***

*Internal credit rating-based approach used for wholesale exposures*

The Company allocates to exposures a credit risk grade that is based on experienced credit judgement and a variety of data that is predictive of the risk of default. BNY Mellon uses its 18 point internal credit rating scale to determine a significant increase in credit risk for wholesale exposures (cash and balances due from banks, interest bearing deposits, loans including overdrafts and unfunded commitments and letters of credit):

- 1-10 Investment grade
- 11-14 Non-investment grade, non-criticised assets
- 15-16 Criticised asset rating
- 17-18 Default rating

Credit risk grades are defined and calibrated such that the risk of default increases exponentially as the credit worthiness deteriorates.

A significant increase in credit risk and transfer to stage two occurs for such exposures when there has been a four notch downgrade since initial recognition of the exposure. As a backstop, an exposure that is 30 days past due (“DPD”) is considered to have experienced a significant increase in credit risk. Additionally, exposures with a criticised asset rating (15-16) are deemed to have suffered a significant increase in credit risk compared with the maximum initial credit risk at recognition.

Recovery from a significant increase in credit risk occurs when an exposure’s credit rating improves by two notches from the rating when it initially was moved into stage two, subject to being less than four grades below initial recognition date rating and not having a criticised asset rating.

*Low credit risk exception applied to investment securities portfolio*

IFRS 9 permits an entity to assume that credit risk has not increased significantly since initial recognition if the credit risk on the exposure is low at the reporting date. BNY Mellon applies this approach to investment securities that have an internal rating of 1-10.

***Definition of default***

Under IFRS 9, the Company considers a financial asset to be in default when:

- The counterparty is unlikely to fulfil its obligations to the Company in full without recourse by the Company to actions such as realising security (if any is held); or
- The counterparty is past due more than 90 days on any material obligation to the Company. Overdrafts (operational credit) are considered as being past due only once payment has been requested from the counterparty.

***Forward-looking information***

The Company incorporates forward-looking information into its determination of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. Internal credit ratings used in determining significant increase in credit risk for wholesale exposures take into account forward-looking information specific to the counterparty.

### 2 Financial risk management - continued

ECLs are calculated based on the probability-weighted outcome of multiple economic scenarios. Scenarios are provided by an external provider and enhanced using an in-house model to derive all variables needed by the risk models. Three scenarios are used: Baseline, Optimistic, and Pessimistic. Those models incorporate reversion to long-term means. The weight allocated to each scenario is determined by calibrating the three scenarios using as a benchmark scenario the Blue-Chip Economic Indicators consensus. The weighting is then reviewed by an Economic Scenario Governance Group.

***Derivatives***

The Company maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts) by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Company (i.e. assets where their fair value is positive), which in relation to derivatives is typically only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. The majority of the Company's derivative positions are mainly held with another Group entity.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Company requires margin deposits from counterparties. Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Company’s market transactions on any single day.

The Company further restricts its exposure to credit losses on derivative transactions by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

The Company’s overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement. As at 31 December 2023, £791,000 was outstanding for derivatives subject to master netting arrangements (2022: £nil).

**Offsetting financial assets and financial liabilities**

The disclosures set out in the following tables include financial assets and financial liabilities that are offset in the Company’s Balance sheet, or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Balance sheet.

The ‘similar agreements’ include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, sale-and-repurchase agreements, reverse sale-and-repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the following tables unless they are offset in the Balance sheet.

The International Swaps and Derivatives Association (“ISDA”) and similar master netting arrangements do not meet the criteria for offsetting in the Balance sheet. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or the counterparties or following other predetermined events. In addition, the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

### 2 Financial risk management - continued

The Company receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale-and-repurchase, and reverse sale-and-repurchase, agreements; and
- securities lending and borrowing.

This collateral is subject to standard industry terms including, when appropriate, an ISDA credit support annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

***Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements***

| 31 December 2023 | Gross amounts recognised £000 | Amounts offset in the Balance sheet £000 | Net amounts presented in the Balance sheet £000 |
|---|---|---|---|
| **Types of financial assets** | | | |
| Due from Group undertakings | 7,474 | - | 7,474 |
| **Total** | 7,474 | - | 7,474 |
| **Types of financial liabilities** | | | |
| Due to Group undertakings | 16,402 | - | 16,402 |
| Deposits by banks | 68,776 | - | 68,776 |
| Other liabilities | 791 | - | 791 |
| **Total** | 85,969 | - | 85,969 |

| 31 December 2022 | Gross amounts recognised £000 | Amounts offset in the Balance sheet £000 | Net amounts presented in the Balance sheet £000 |
|---|---|---|---|
| **Types of financial assets** | | | |
| Due from Group undertakings | 8,943 | - | 8,943 |
| **Total** | 8,943 | - | 8,943 |
| **Types of financial liabilities** | | | |
| Due to Group undertakings | 14,578 | - | 14,578 |
| Total | 14,578 | - | 14,578 |

## 2 Financial risk management - continued

### *2.2 Market risk*

The Company does not have significant exposure to market risk through trading or foreign currency positions and therefore market risk arising from these exposures is considered negligible given the Company does not engage in proprietary foreign exchange trading and any risk arising from structural positions is deemed minimal. Market risk arising out of interest rate exposures is discussed below under interest rate risk.

### *2.3 Foreign exchange risk*

The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2023 and 2022.

| | **2023** | **2022** |
|---|---|---|
| | **£000** | **£000** |
| **Assets:** | | |
| Denominated in US Dollar | 774,628 | 1,640,500 |
| Denominated in Euro | 340,156 | 259,864 |
| Denominated in other currencies | 650,995 | 826,507 |
| **Total assets exposed to foreign exchange risk** | 1,765,779 | 2,726,871 |
| **Liabilities, share capital and reserves:** | | |
| Denominated in US Dollar | 774,628 | 1,640,500 |
| Denominated in Euro | 340,156 | 259,864 |
| Denominated in other currencies | 650,995 | 826,507 |
| **Total liabilities and reserves exposed to foreign exchange risk** | 1,765,779 | 2,726,871 |

The Company monitors the foreign currency exposures on a monthly basis and acts accordingly to ensure foreign exchange risk is minimal. The positions in the table above are after management action.

### *2.4 Interest rate risk*

Interest rate risk in the banking book is the risk from fluctuations in earnings and the value of financial instruments due to changes in market interest rates. Interest rate risk is driven from mismatches in the repricing and maturity of assets and liabilities, changes to the shape of market yield curve as future expectations fluctuate and optionality in products offered to customers. The Company manages interest rate risk as part of the, the risk limit framework covers sensitivity to interest rates on earnings and valuation with risk appetite calibrated across these metrics.

The tables on the following pages summarise these re-pricing mismatches as at 31 December 2023 and 2022. Items are allocated to time bands, using contractual information, by reference to either (a) the next repricing date or the maturity date if floating rate or (b) the maturity date if fixed rate. The Company is committed to managing, within its risk appetite, the inherent interest rate risk in its business strategy and model.

### 2 Financial risk management - continued

### *2.4 Interest rate risk - continued*

| 2023 | Note | Carrying value £000 | Within 3 months £000 | After 3 months but within 6 months £000 | After 6 months but within 1 year £000 | After 1 year but within 5 years £000 | After 5 years £000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances at central banks | 14 | 3,781,275 | 3,781,275 | - | - | - | - |
| Loans and advances to banks | 15 | 1,645,021 | 1,645,021 | - | - | - | - |
| Loans and advances to customers | 16 | 108,153 | 108,153 | - | - | - | - |
| Investment securities | 17 | 3,072,747 | 2,005,117 | - | 339,690 | 703,359 | 24,581 |
| Total assets | | 8,607,196 | 7,539,566 | - | 339,690 | 703,359 | 24,581 |
| **Liabilities** | | | | | | | |
| Deposits from banks | 24 | 3,297,200 | 3,297,200 | - | - | - | - |
| Customer accounts | 25 | 4,583,519 | 4,583,519 | - | - | - | - |
| Other liabilities | 26 | 791 | 791 | - | - | - | - |
| Total liabilities | | 7,881,510 | 7,881,510 | - | - | - | - |
| Interest rate sensitivity cover | | 725,686 | (341,944) | - | 339,690 | 703,359 | 24,581 |
| Cumulative interest rate sensitivity cover | | 725,686 | (341,944) | (341,944) | (2,254) | 701,105 | 725,686 |

| 2022 | Note | Carrying value £000 | Within 3 months £000 | After 3 months but within 6 months £000 | After 6 months but within 1 year £000 | After 1 year but within 5 years £000 | After 5 years £000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances at central banks | 14 | 4,706,360 | 4,706,360 | - | - | - | - |
| Loans and advances to banks | 15 | 2,520,019 | 2,520,019 | - | - | - | - |
| Loans and advances to customers | 16 | 138,345 | 138,345 | - | - | - | - |
| Investment securities | 17 | 4,054,942 | 2,727,657 | 43,012 | 381,603 | 862,845 | 39,825 |
| Total assets | | 11,419,666 | 10,092,381 | 43,012 | 381,603 | 862,845 | 39,825 |
| **Liabilities** | | | | | | | |
| Deposits from banks | 24 | 4,164,947 | 3,164,947 | - | 1,000,000 | - | - |
| Customer accounts | 25 | 6,631,188 | 6,631,188 | - | - | - | - |
| Total liabilities | | 10,796,135 | 9,796,135 | - | 1,000,000 | - | - |
| Interest rate sensitivity cover | | 623,531 | 296,246 | 43,012 | (618,397) | 862,845 | 39,825 |
| Cumulative interest rate sensitivity cover | | 623,531 | 296,246 | 339,258 | (279,139) | 583,706 | 623,531 |

### 2 Financial risk management - continued

#### *2.5 Liquidity risk*

Liquidity risk is governed by a liquidity policy approved by the Board. The principal objective of the policy is to ensure that with a high degree of confidence, the Company is in a position to meet its day-to-day liquidity obligations and withstand a period of liquidity stress, the source of which could be idiosyncratic, market-wide or both. This objective is achieved by careful and effective management of the Balance sheet within agreed limits as laid down by the Board. Items are allocated to time bands by reference to the earlier of the next date of when settlement of the asset or liability is allowed and the maturity date.

**Maturity analysis of assets and liabilities**

| 2023 | Note | Carrying value £000 | Gross nominal outflow £000 | Within 3 months £000 | After 3 months but within 6 months £000 | After 6 months but within 1 year £000 | After 1 year but within 5 years £000 | After 5 years £000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances at central banks | 14 | 3,781,275 | 3,781,275 | 3,781,275 | - | - | - | - |
| Loans and advances to banks | 15 | 1,645,021 | 1,645,021 | 1,645,021 | - | - | - | - |
| Loans and advances to customers | 16 | 108,153 | 108,153 | 108,153 | - | - | - | - |
| Investment securities | 17 | 3,072,747 | 3,072,747 | 2,005,117 | - | 339,690 | 703,359 | 24,581 |
| Other assets | 23 | 33,543 | 33,543 | 33,543 | - | - | - | - |
| Total financial assets | | 8,640,739 | 8,640,739 | 7,573,109 | - | 339,690 | 703,359 | 24,581 |
| **Liabilities** | | | | | | | | |
| Deposits by banks | 24 | 3,297,200 | 3,297,200 | 3,297,200 | - | - | - | - |
| Customer accounts | 25 | 4,583,519 | 4,583,519 | 4,583,519 | - | - | - | - |
| Other liabilities | 26 | 30,820 | 30,820 | 30,820 | - | - | - | - |
| Total financial liabilities | | 7,911,539 | 7,911,539 | 7,911,539 | - | - | - | - |
| Liquidity cover | | 729,200 | 729,200 | (338,430) | - | 339,690 | 703,359 | 24,581 |
| Cumulative liquidity cover | | 729,200 | 729,200 | (338,430) | (338,430) | 1,260 | 704,619 | 729,200 |

| 2022 | Note | Carrying value £000 | Gross nominal outflow £000 | Within 3 months £000 | After 3 months but within 6 months £000 | After 6 months but within 1 year £000 | After 1 year but within 5 years £000 | After 5 years £000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances at central banks | 14 | 4,706,360 | 4,706,360 | 4,706,360 | - | - | - | - |
| Loans and advances to banks | 15 | 2,520,019 | 2,520,019 | 2,520,019 | - | - | - | - |
| Loans and advances to customers | 16 | 138,345 | 138,345 | 138,345 | - | - | - | - |
| Investment securities | 17 | 4,054,942 | 4,054,942 | 4,017,509 | - | - | 37,433 | - |
| Total financial assets | | 11,419,666 | 11,419,666 | 11,382,233 | - | - | 37,433 | - |
| **Liabilities** | | | | | | | | |
| Deposits by banks | 24 | 4,164,947 | 4,164,947 | 3,164,947 | - | 1,000,000 | - | - |
| Customer accounts | 25 | 6,631,188 | 6,631,188 | 6,631,188 | - | - | - | - |
| Total financial liabilities | | 10,796,135 | 10,796,135 | 9,796,135 | - | 1,000,000 | - | - |
| Liquidity cover | | 623,531 | 623,531 | 1,586,098 | - | (1,000,000) | 37,433 | - |
| Cumulative liquidity cover | | 623,531 | 623,531 | 1,586,098 | 1,586,098 | 586,098 | 623,531 | 623,531 |

### 2 Financial risk management - continued

***2.5 Liquidity risk - continued***

The Company's expected cash flows on some financial assets and financial liabilities vary from the contractual cash flows. The principal differences are as follows:

- demand deposits from customers are expected to remain relatively stable or increase; and
- unrecognised loan commitments are not all expected to be drawn down immediately.

As part of the management of liquidity risk arising from financial liabilities, the Company holds liquid assets comprising cash and balances at central banks, and debt securities issued by sovereigns, which can be readily sold to meet liquidity requirements. In addition, the Company maintains agreed lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks (these amounts are referred to as the Company's 'liquidity reserves').

### 3 Fair value financial instruments

***Fair value of financial assets and liabilities***

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The fair values of all financial assets and liabilities by class together with their carrying amounts presented in the Balance sheet are as follows:

### 3 Fair value financial instruments - continued

***Fair value of financial assets and liabilities - continued***

| | Note | Carrying amount 2023 £000 | Fair value 2023 £000 | Level 1 2023 £000 | Level 2 2023 £000 | Level 3 2023 £000 |
|---|---|---|---|---|---|---|
| **Financial instruments** | | | | | | |
| **Investment securities** | | | | | | |
| Investment securities measured at FVOCI | | 3,035,287 | 3,035,287 | 229,920 | 2,805,367 | - |
| Investment securities measured at amortised cost | | 37,460 | 35,745 | - | 35,745 | - |
| Total investment securities | 17 | 3,072,747 | 3,071,032 | 229,920 | 2,841,112 | - |
| **Other financial assets** | | | | | | |
| Cash and balances at central banks | 14 | 3,781,275 | 3,781,275 | - | 3,781,275 | - |
| Loans and advances to banks | 15 | 1,645,021 | 1,645,021 | - | 1,645,021 | - |
| Loans and advances to customers | 16 | 108,153 | 108,153 | - | 108,153 | - |
| Other assets | 23 | 33,543 | 33,543 | - | 33,543 | - |
| Total other financial assets | | 5,567,992 | 5,567,992 | - | 5,567,992 | - |
| **Financial liabilities measured at amortised cost** | | | | | | |
| Deposits by banks | 24 | 3,297,200 | 3,297,200 | - | 3,297,200 | - |
| Customer accounts | 25 | 4,583,519 | 4,583,519 | - | 4,583,519 | - |
| Other liabilities | 26 | 30,819 | 30,819 | - | 30,819 | - |
| Total financial liabilities | | 7,911,538 | 7,911,538 | - | 7,911,538 | - |

| | Note | Carrying amount 2022 £000 | Fair value 2022 £000 | Level 1 2022 £000 | Level 2 2022 £000 | Level 3 2022 £000 |
|---|---|---|---|---|---|---|
| **Financial instruments** | | | | | | |
| **Investment securities** | | | | | | |
| Investment securities measured at FVOCI | | 4,017,509 | 4,017,509 | 503,709 | 3,513,800 | - |
| Investment securities measured at amortised cost | | 37,433 | 34,800 | - | 34,800 | - |
| Total investment securities | 17 | 4,054,942 | 4,052,309 | 503,709 | 3,548,600 | - |
| **Other financial assets** | | | | | | |
| Cash and balances at central banks | 14 | 4,706,360 | 4,706,360 | - | 4,706,360 | - |
| Loans and advances to banks | 15 | 2,520,019 | 2,520,019 | - | 2,520,019 | - |
| Loans and advances to customers | 16 | 138,345 | 138,345 | - | 138,345 | - |
| Other assets | 23 | 22,380 | 22,380 | - | 22,380 | - |
| Total other financial assets | | 7,387,104 | 7,387,104 | - | 7,387,104 | - |
| **Financial liabilities measured at amortised cost** | | | | | | |
| Deposits by banks | 24 | 4,164,947 | 4,164,947 | - | 4,164,947 | - |
| Customer accounts | 25 | 6,631,188 | 6,631,188 | - | 6,631,188 | - |
| Other liabilities | 26 | 28,159 | 28,159 | - | 28,159 | - |
| Total financial liabilities | | 10,824,294 | 10,824,294 | - | 10,824,294 | - |

## 3 Fair value financial instruments - continued

***Fair value of financial assets and liabilities - continued***

**Financial instruments recorded at fair value**

A description of the determination of fair value per class of financial instruments is presented below. The fair value determinations incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

**Financial instruments - debt investment securities**

Debt investment securities held as financial assets classified within Level 1 mainly consist of government securities that are actively traded in highly liquid over-the-counter markets. These securities are valued using recent quoted unadjusted prices.

If quoted market prices are not available, the fair values are estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For securities where quotes from recent transactions are not available for identical securities, the Company determines fair value primarily based on pricing sources with reasonable levels of price transparency. Specifically, the pricing sources obtain recent transactions for similar types of securities (e.g. vintage, position in the securitization structure) and ascertain variables such as speed of prepayment and discount rate for the types of transaction and apply them to similar types of bonds. The Company views these as observable transactions in the current marketplace and classifies such securities as Level 2.

**Fair value of financial assets and liabilities not carried at fair value**

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because they are short term in nature:

**Financial assets**

- cash in hand and on demand balances at central banks
- loans and advances to banks
- loans and advances to customers
- other loans and debtors

**Financial liabilities**

- deposits by banks
- customer accounts
- other loans and creditors

Loans and advances to banks and customers comprise short-term lending, which are predominantly floating rate advances and lending and hence the carrying amount and fair value are similar.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

For investment securities measured at amortised cost, for which we disclose a fair value, we determined quoted market prices to be the appropriate fair value measurement when available.

### 4 Interest receivable and payable

| | 2023 | 2022 |
|---|---|---|
| | **£000** | **£000** |
| Group companies - financial assets measured at amortised cost | 62,748 | 30,425 |
| External third parties | | |
| - financial assets measured at amortised cost | 179,795 | 79,070 |
| - financial assets measured at FVOCI | 126,226 | 54,027 |
| **Interest receivable** | 368,769 | 163,522 |
| Group companies - financial liabilities measured at amortised cost | (126,907) | (49,235) |
| External third parties - financial liabilities measured at amortised cost | (142,642) | (43,179) |
| **Interest payable** | (269,549) | (92,414) |
| **Net interest income** | 99,220 | 71,108 |

### 5 Revenue from contracts with customers

**Nature of Services and Revenue Recognition**

Fee revenue relating to the provision of Custody, Trustee and Depositary, Transfer Agency, Fund Accounting and other services is primarily variable, based on levels of assets under custody or administration ("AUC/A"), Assets Under Management ("AUM") and the level of client-driven transactions, as specified in fee schedules. Certain fees based on the market value of assets are calculated in arrears on a monthly or quarterly basis.

Substantially all services are provided over time. Revenue for these services is recognised using the accrued over time method, equal to the expected invoice amount, which typically represents the value provided to the customer for performance completed to date.

**Contract Balances**

The Company's customers are billed based on fee schedules that are agreed upon in each customer contract. The receivables from customers were £14.4 million at 31 December 2023 (2022: £9.9 million). An allowance is maintained for accounts receivable which is generally based on the number of days outstanding. Adjustments to the allowance are recorded in administrative expenses in the Statement of profit and loss, and Other comprehensive income. Receivables from customers are included in other assets and prepayments and accrued income on the Balance sheet.

The Company had no contract assets or contract liabilities as at 31 December 2023 (2022: £nil).

Any changes in the balances of contract assets and contract liabilities would result from changes arising from business combinations, impairment of a contract asset and changes in the timeframe for a right to consideration becoming unconditional or a performance obligation to be satisfied. No such instances were noted.

**5 Revenue from contracts with customers - continued**

**Contract Costs**

Contract costs represent either costs which are capitalised relating to incremental costs for obtaining contracts, or costs incurred for fulfilling contract obligations when they relate directly to an existing contract or specific anticipated contract, generate or enhance resources that will be used to fulfil performance obligations and are recoverable. The Company had no contract costs as at 31 December 2023, (2022: £nil).

**Unsatisfied Performance Obligations**

The Company does not have any unsatisfied performance obligations other than those subject to a practical expedient election under IFRS 15. The practical expedient applies to; (i) contracts with an original expected length of one year or less, and (ii) contracts for which the Company recognises revenue at the amount to which the Company has the right to invoice for services performed.

**6 Other operating income**

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Foreign exchange income | 7,453 | 9,181 |
| Recharge of service charges to fellow Group undertakings | 3,224 | 4,935 |
| (Loss)/gains on non-qualifying economic hedges | (38) | 80 |
| Cummulative gains on sale of FVOCI assets | 163 | 797 |
| | 10,802 | 14,993 |

**7 Income from investments in affiliates**

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Income from investments in associate | 17,516 | 22,155 |

The amounts in the table above were received by the Company from its 10% participating interest in an Investment and Cooperation Agreement with another Group entity.

### 8 Staff costs

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Salaries and wages | 228 | 209 |
| Social security costs | 27 | 31 |
| Pension costs | 15 | 15 |
| Other staff costs | 6 | 7 |
| | 276 | 262 |

In 2016, the Company executed a series of Service Level Agreements with other Group companies, which enabled it to move to a fully outsourced operating model. The impact on the financial statements is that expenses previously recorded as staff costs are now recorded as intercompany service charges, generally on a cost plus 10% basis within Administrative expenses. Salaries and wages costs in 2023 represent amounts paid to non-executive directors.

The average number of employees dedicated to the Company's business during the year was nil (2022: nil).

### 9 Directors' emoluments

The aggregate amount of remuneration paid to or receivable by directors in respect of qualifying services is disclosed below. Qualifying services include services as a director of the Company, as a director of any of its subsidiary undertakings or otherwise in connection with the management of the affairs of the Company or any of its subsidiary undertakings. The amounts are disclosed irrespective of which Group company actually makes the payment to the directors.

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Directors' emoluments | 824 | 600 |
| Amounts receivable under long term incentive schemes | 137 | 77 |
| Company contributions to money purchase pension schemes | 9 | 4 |
| Compensation for loss of office | 19 | 413 |
| | 989 | 1,094 |

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £439,000 (2022: £613,000) and Company pension contributions of £3,000 (2022: £2,000) were made on their behalf to a money purchase scheme. During the year, the highest paid director did not exercise share options but did receive shares under a long term incentive scheme.

| | Number of directors | |
|---|---|---|
| | 2023 | 2022 |
| Retirement benefits are accruing to the following number of directors under: | | |
| Money purchase schemes | 5 | 4 |
| The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was | 5 | 5 |

### 10 Administrative expenses and auditor's remuneration

Profit before taxation is stated after charging:

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Depreciation - assets under construction - owned | 12 | - |
| Amortisation | 58 | 3 |
| | 70 | 3 |

Auditor's remuneration:

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Amounts receivable by the Company's auditor and its associates in respect of: | | |
| Audit of Parent and subsidiary financial statements pursuant to legislation | 677 | 488 |
| Other services pursuant to legislation | 530 | 492 |
| Audit related assurance services | - | - |
| Other assurance services | - | - |
| All other services | 239 | 232 |
| | 1,446 | 1,212 |

The above costs include additional fees of £213,609 (2022: £72,792) to reflect costs expensed in the year relating to previous year's audit and assurance services.

### 11 Taxation

***Recognised in the Statement of profit and loss and Other comprehensive income***

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| *UK corporation tax* | | | | |
| Current tax on profit for the period | 38,423 | | 18,660 | |
| Adjustments in respect of prior periods | (334) | | (24) | |
| | 38,089 | | 18,636 | |
| *Foreign tax* | | | | |
| *Deferred tax (see note 21)* | | | | |
| Current year | 101 | | 98 | |
| Effect of tax rate changes | 19 | | 157 | |
| Adjustments in respect of prior periods | - | | (21) | |
| | 120 | | 234 | |
| Total deferred tax | | 120 | | 234 |
| Total tax expense | | 38,209 | | 18,870 |
| *Other comprehensive income items* | | | | |
| Deferred tax current year charge/(credit) | | 11,833 | | (25,051) |
| | | 11,833 | | (25,051) |

### 11 Taxation - continued

***Factors affecting total tax charge for the current period***

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Total profit for the year | 60,313 | 50,313 |
| Total tax expense | (38,209) | (18,870) |
| Profit excluding taxation | 98,522 | 69,183 |
| Tax using the UK corporation tax rate of 23.52% (2022: 19.00%) | 23,172 | 13,145 |
| Tax on share of ICA profits | 12,017 | 6,962 |
| Bank surcharge at 4.23% (2022: 8%) | 5,860 | 5,529 |
| Non-taxable income | (2,525) | (6,878) |
| Effect of tax rate changes | 19 | 157 |
| Adjustments in respect of prior years | (334) | (45) |
| Total tax expense (including tax on discontinued operations | 38,209 | 18,870 |

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantially enacted on 10 June 2021. Finance Act 2022 enacted a reduction in the bank corporation tax surcharge rate from 8% to 3% from 1 April 2023 and increased the surcharge allowance available for banking groups from £25 million to £100 million from the same date. In line with the requirements of IAS 12, these enacted tax rates have been used to determine the deferred tax balances at 31 December 2023.

The Company is within the scope of the OECD Pillar II rules. The Pillar II legislation was enacted in the UK on 20 June 2023 as part of Finance (No.2) Act 2023, and will come into effect from 1 January 2024. Since the Pillar II legislation was not effective at the reporting date, the Company has no related current tax exposure. The UK entities of The Bank of New York Mellon Group are expected to have an effective tax rate above 15%, such that the rules are not expected to have any impact on the Company.

### 12 Capital Requirements Regulations 2013

In accordance with Capital Requirements Regulations 2013, the turnover, nature of activities, profit / (loss) before tax, taxes paid and public subsidies received have been disclosed by geographical location. The total turnover (excluding Net foreign exchange translation gains/(losses)) amounted to £249.0 million (2022: £219.8 million) and comprises Fees and commissions receivable, Net interest income and Other operating income.

| 2023 | Transfer Agency £000 | Fund Accounting £000 | Custody £000 | Trust & Depositary £000 | Total £000 |
|---|---|---|---|---|---|
| **Geographical analysis by location:** | | | | | |
| United Kingdom | 36,360 | 32,298 | 43,953 | 26,751 | 139,362 |
| **Turnover (Fees & Commissions)** | 36,360 | 32,298 | 43,953 | 26,751 | 139,362 |
| | | | | | |
| **Geographical analysis by location:** | | | | | |
| United Kingdom | - | - | 99,220 | - | 99,220 |
| **Net Interest Income** | - | - | 99,220 | - | 99,220 |
| | | | | | |
| **Geographical analysis by location:** | | | | | |
| United Kingdom | - | - | 7,453 | - | 7,453 |
| **Foreign Exchange Income** | - | - | 7,453 | - | 7,453 |

Other income amounting to £10.8 million comprises £7.5 million foreign exchange income noted above in addition to £3.3 million relating to recharges of management overheads, gains on non-qualifying economic hedges, realised gains on the sale of securities and other miscellaneous income which cannot be meaningfully allocated to product lines.

| | Employees | Profit before tax £000 | Taxes paid £000 | Public subsidies received £000 |
|---|---|---|---|---|
| **Geographical analysis by location:** | | | | |
| United Kingdom | - | 98,522 | 38,095 | - |
| | - | 98,522 | 38,095 | - |

### 12 Capital Requirements Regulations 2013 - continued

| **2022** | **Transfer Agency£000** | **Fund Accounting £000** | **Custody £000** | **Trust & Depositary £000** | **Total £000** |
|---|---|---|---|---|---|
| **Geographical analysis by location:** | | | | | |
| United Kingdom | 34,924 | 32,134 | 38,246 | 28,405 | 133,709 |
| **Turnover (Fees & Commissions)** | 34,924 | 32,134 | 38,246 | 28,405 | 133,709 |
| | | | | | |
| **Geographical analysis by location:** | | | | | |
| United Kingdom | - | - | 71,108 | - | 71,108 |
| **Net Interest Income** | - | - | 71,108 | - | 71,108 |
| **Geographical analysis by location:** | | | | | |
| United Kingdom | - | - | 9,181 | - | 9,181 |
| **Foreign Exchange Income** | - | - | 9,181 | - | 9,181 |

Other income amounting to £15.0 million comprises £9.2 million foreign exchange income noted above in addition to £5.8 million relating to recharges of management overheads, gains on non-qualifying economic hedges, realised gains on the sale of securities and other miscellaneous income which cannot be meaningfully allocated to product lines.

| | **Employees** | **Profit before tax £000** | **Taxes paid £000** | **Public subsidies received £000** |
|---|---|---|---|---|
| **Geographical analysis by location:** | | | | |
| United Kingdom | - | 69,183 | 13,078 | - |
| | - | 69,183 | 13,078 | - |

The taxes paid figure of £13,078,000 includes a refund of £2,558,000 received in respect of the Company's former Luxembourg Branch, which is now closed.

### 13 Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the Balance sheet and categories of financial instruments.

| 2023 | Note | Mandatorily at FVTPL £000 | FVOCI - debt instruments £000 | Amortised cost £000 | Total carrying value £000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances at central banks | 14 | - | - | 3,781,275 | 3,781,275 |
| Loans and advances to banks | 15 | - | - | 1,645,021 | 1,645,021 |
| Loans and advances to customers | 16 | - | - | 108,153 | 108,153 |
| Investment securities: | | | | | |
| - Measured at fair value | 17 | - | 3,035,287 | - | 3,035,287 |
| - Measure at amortised cost | 17 | - | - | 37,460 | 37,460 |
| Amounts due from group undertakings | 23 | - | - | 7,474 | 7,474 |
| Other assets | 23 | - | - | 26,069 | 26,069 |
| Total financial assets | | - | 3,035,287 | 5,605,452 | 8,640,739 |
| **Liabilities** | | | | | |
| Deposits by banks | 24 | - | - | 3,297,200 | 3,297,200 |
| Customer accounts | 25 | - | - | 4,583,519 | 4,583,519 |
| Amounts due to group undertakings | 26 | - | - | 16,402 | 16,402 |
| Other liabilities | 26 | 791 | - | 13,626 | 14,417 |
| Total financial liabilities | | 791 | - | 7,910,747 | 7,911,538 |

| 2022 | Note | FVOCI - investment securities £000 | Amortised cost £000 | Total carrying amount £000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances at central banks | 14 | - | 4,706,360 | 4,706,360 |
| Loans and advances to banks | 15 | - | 2,520,019 | 2,520,019 |
| Loans and advances to customers | 16 | - | 138,345 | 138,345 |
| Investment securities: | | | | |
| - Measured at fair value | 17 | 4,017,509 | - | 4,017,509 |
| - Measured at amortised cost | 17 | - | 37,433 | 37,433 |
| Amounts due from group undertakings | 23 | - | 8,943 | 8,943 |
| Other loans and debtors | | - | 13,437 | 13,437 |
| Total financial assets | | 4,017,509 | 7,424,537 | 11,442,046 |
| **Liabilities** | | | | |
| Deposits by banks | 24 | - | 4,164,947 | 4,164,947 |
| Customer accounts | 25 | - | 6,631,188 | 6,631,188 |
| Amounts due to group undertakings | 26 | - | 14,578 | 14,578 |
| Other liabilities | 26 | - | 13,581 | 13,581 |
| Total financial liabilities | | - | 10,824,294 | 10,824,294 |

### 14 Cash and balances at central banks

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Cash and balances at central banks | 3,781,275 | 4,706,360 |

The Company is exposed to foreign exchange risk between the date of recognition and settlement of foreign currency income and expenses. To mitigate this, the Company maintains foreign currency cash balances to offset the net currency position. This activity can result in foreign currency overdrafts that mitigate the risk of currency receivables.

### 15 Loans and advances to banks

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Repayable within three months | 1,627,007 | 2,494,944 |
| Restricted cash | 18,014 | 25,075 |
| | 1,645,021 | 2,520,019 |
| Amounts include: | | |
| Due from fellow Group undertakings | | |
| - unsubordinated | 1,626,286 | 2,494,944 |
| - subordinated (Note 27) | 721 | - |
| | 1,627,007 | 2,494,944 |

Restricted cash relates to cash ratio deposit held with Bank of England as a regulatory requirement.

### 16 Loans and advances to customers

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Repayable within three months | 108,153 | 138,345 |

### 17 Investment securities

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Investment securities measured at FVOCI | 3,035,287 | 4,017,509 |
| Investment securities measured at amortised cost | 37,460 | 37,433 |
| | 3,072,747 | 4,054,942 |

### 17 Investment securities - continued

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| **Investment securities measured at FVOCI** | | |
| Covered bonds | 1,625,338 | 1,517,309 |
| Government guaranteed | 390,682 | 527,317 |
| Sovereign debt | 229,920 | 503,709 |
| Sub-Sovereign debt | 370,732 | 352,322 |
| Supranational debt | 374,002 | 1,099,825 |
| Non-Agency Residential Mortgage Backed Security | 44,613 | 17,027 |
| **Investment securities measured at amortised cost** | | |
| Supranational debt | 37,460 | 37,433 |
| | 3,072,747 | 4,054,942 |

### 18 Investments in affiliates

| | Investment in subsidiaries | Investment in associate | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Cost** | | | |
| At 1 January 2023 | 57,176 | 131,444 | 188,620 |
| Foreign exchange movements | - | (6,771) | (6,771) |
| Dividend in specie | (28) | - | (28) |
| At 31 December 2023 | 57,148 | 124,673 | 181,821 |
| **Net book value** | | | |
| At 31 December 2023 | 57,148 | 124,673 | 181,821 |
| At 31 December 2022 | 57,176 | 131,444 | 188,620 |

**Investment in Associate**

The investment in associate represents a 10% (2022: 10%) participating interest in an ‘Investment and Cooperation Agreement’ with another Group entity. The principal activity of the associate is banking. The investment is USD denominated.

Management have conducted an impairment review of the carrying value of the investment based on the fair value of the associate. The key considerations used in our impairment assessment were;

- The investment is able to be drawn down by the Company with one month’s notice and is therefore akin to a 30 day deposit account; and
- The investment is held at an AA rated bank.

Management are satisfied that there were no indicators of impairment at 31 December 2023 (2022: none).

### 18 Investments in affiliates - continued

**Investment in subsidiaries**

The Company had 2 (2022: 3) direct subsidiaries and 1 (2022: 1) indirect subsidiary. Nominee companies are dormant entities. The Company has the following investments in subsidiaries:

| | Registered office | Principal activity | Class of shares held | Ownership 2023 | 2022 |
|---|---|---|---|---|---|
| **Direct** | | | | | |
| BNY Trust Company Limited | 160 Queen Victoria Street, London, EC4V 4LA | Holding Company | Ordinary £1 | 100% | 100% |
| BNY Mellon Secretaries (UK) Limited | 160 Queen Victoria Street, London, EC4V 4LA | Nominee Company | Ordinary £1 | 100% | 100% |
| BNY Custodial Nominees (Ireland) Limited * | 160 Queen Victoria Street, London, EC4V 4LA | Nominee Company | Ordinary €1.25 | Nil | 100% |
| **Indirect** | | | | | |
| BNY Mellon Trust & Depositary (UK) Limited | 160 Queen Victoria Street, London, EC4V 4LA | Trustee to Authorised and Unauthorised Unit Trusts and Depositary to Open Ended Investment Companies | Ordinary £1 | 100% | 100% |

During the year, no dividends were received from subsidiaries (2022: £nil).

Management have conducted an impairment review of the investments based on the net assets versus carrying value of the principal subsidiaries and have concluded that no impairment exists at the balance sheet date.

* The Company's investment in BNY Custodial Nominees (Ireland) Limited was transferred to the Company's immediate parent BNY International Financing Corporation in 2023 through a dividend in specie.

## 19 Intangible assets

| | Computer software, internally generated | Total |
|---|---|---|
| | £000 | £000 |
| **Cost** | | |
| At 1 January 2023 | 15 | 15 |
| Additions | 255 | 255 |
| At 31 December 2023 | 270 | 270 |
| **Amortisation and impairment** | | |
| At 1 January 2023 | 3 | 3 |
| Amortisation | 58 | 58 |
| At 31 December 2023 | 61 | 61 |
| **Net book value** | | |
| At 31 December 2023 | 209 | 209 |
| At 31 December 2022 | 12 | 12 |

During the year, management conducted an impairment review of intangible assets. The review highlighted that there were no indicators of impairment. Management are therefore satisfied that the recoverable amount exceeds the carrying amount. The recoverable amount of the intangibles is based on the net realisable value.

## 20 Tangible fixed assets

| | Fixtures and fittings | Computer equipment | Leasehold improvements | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Cost** | | | | |
| At 1 January 2023 | 1,464 | 7,302 | 379 | 9,145 |
| Additions | - | 76 | - | 76 |
| At 31 December 2023 | 1,464 | 7,378 | 379 | 9,221 |
| **Depreciation and impairment** | | | | |
| At 1 January 2023 | 1,464 | 7,301 | 379 | 9,144 |
| Depreciation | - | 12 | - | 12 |
| At 31 December 2023 | 1,464 | 7,313 | 379 | 9,156 |
| **Net book value** | | | | |
| At 31 December 2023 | - | 65 | - | 65 |
| At 31 December 2022 | - | 1 | - | 1 |

### 21 Deferred tax assets and liabilities

***Movement in deferred tax during the year***

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| At 1 January | 26,967 | 2,150 |
| Profit and loss charge | (120) | (255) |
| OCI (charge)/credit | (11,833) | 25,051 |
| Prior year adjustment | - | 21 |
| At 31 December | 15,014 | 26,967 |

Deferred tax assets have been recognised in full based on expected recoverability due to future anticipated profits of the Company. The major components of deferred tax are as follows:

***Recognised deferred tax assets and liabilities***

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Tangible fixed assets | 552 | 669 |
| Unrealised losses/(gains) in OCI | 14,450 | 26,284 |
| Change in basis IFRS 9 | 12 | 14 |
| Net deferred tax asset/(liability) | 15,014 | 26,967 |

The Company has tax losses carried forward of £6.6 million (2022: £6.6 million). There are restrictions on the use of these losses and can only be offset against future taxable income generated by certain lines of business. Whilst the Company is profit making, it is not probable that there will be future taxable income available in the relevant lines of business against which these losses can be utilised. Accordingly, the benefit of the losses carried forward has not been recognised in these financial statements. The deferred tax asset not recognised on these losses carried forward is £1.7 million (2022: £1.7 million).

### 22 Prepayments and accrued income

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Unbilled trade receivables | 26,096 | 22,139 |
| Accrued interest | 31,710 | 21,089 |
| Deferred costs | 457 | 683 |
| Prepaid expenses | 541 | 487 |
| | 58,804 | 44,398 |

### 23 Other assets

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Amounts owed by group companies | 7,474 | 8,943 |
| Other debtors | 26,069 | 13,437 |
| | 33,543 | 22,380 |

Other assets are stated after £473,000 of ECL for trade receivables (2022: £125,000).

The table below reflects the movement in ECL on trade receivables during the period:

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| At 1 January | 125 | 255 |
| Provided during the year | 348 | - |
| Released during the year | - | (130) |
| At 31 December | 473 | 125 |

### 24 Deposit by banks

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Due to Group undertakings | 3,228,424 | 4,164,947 |
| Repurchase agreements (Note 28) | 68,776 | - |
| | 3,297,200 | 4,164,947 |

### 25 Customer accounts

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Repayable | | |
| - on demand | 4,537,703 | 6,586,911 |
| - within 3 months | 45,816 | 44,277 |
| | 4,583,519 | 6,631,188 |
| Amounts include: | | |
| Due to fellow Group undertakings | | |
| - on demand | 100 | 10,763 |
| - within 3 months | 45,816 | 44,277 |
| | 45,916 | 55,040 |

### 26 Other liabilities

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Amounts owed to group undertakings | 16,402 | 14,578 |
| Interest rate swaps (Note 27) | 791 | - |
| Other payables | 13,626 | 13,581 |
| | 30,819 | 28,159 |

### 27 Interest rate swaps

The Company uses interest rate swap agreements to manage exposure to interest rate fluctuations. The Company enters into fair value hedge relationships as an interest rate risk management strategy to reduce fair value variability by converting certain fixed rate interest payments associated with securities measured at FVOCI and long-term debt to floating interest rates.

As at 31 December 2023, £32.8 million par value of available-for-sale securities were hedged with interest rate swaps with notional values amounting to £32.1 million. For the year ended 31 December 2023, some of the assets pledged faced a diminution in their fair value and therefore have resulted in additional cash collateral amounting to £721,000.

The following table presents the pre-tax gains (losses) related to our fair value and cash flow hedging activities recognised in the Statement of profit and loss.

| | | 2023 | 2022 |
|---|---|---|---|
| **Income statement impact of fair value hedges** | **Location of gain (loss)** | **£000** | **£000** |
| Interest rate swaps | Interest receivable and similar income | (802) | - |
| Hedged assets | Interest receivable and similar income | 802 | - |
| **Gain (loss) recognised in Profit and loss account** | | - | - |

The following table presents information on the hedged items in fair value hedging relationships:

| | Carrying amount of hedged asset | | Hedge accounting basis adjustment increase (decrease) included in the carrying amount of the hedged item | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| | **£000** | **£000** | **£000** | **£000** |
| Assets held at FVOCI | 32,800 | - | (802) | - |

### 27 Interest rate swaps - continued

The following table summarises the notional amount and carrying values of our total derivatives portfolio:

| Impact of derivative instruments designated as hedging instruments on the Balance sheet | Notional value | | Asset derivatives fair value | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | £000 | £000 | £000 | £000 |
| Interest rate contracts | 32,100 | - | 791 | - |

### 28 Repurchase agreements

The Company's repurchase agreements primarily mitigate risk associated with liquidity. The Company is required to pledge collateral based on predetermined terms within the agreements. If it were to experience a decline in the fair value of the collateral pledged for these transactions, the Company would be required to provide additional collateral to the counterparty, therefore decreasing the amount of assets available for other liquidity needs that may arise.

As at 31 December 2023, the Company had total outstanding repurchase agreements amounted to £68.8 million including accrued interest of £594,000.

The following table presents the value of collateral given to the existing counter parties as part of the repurchase agreements.

| | 31 Dec 2023 | | | | | 31 Dec 2022 |
|---|---|---|---|---|---|---|
| | Market value | | | | | |
| Repurchase agreements | Remaining contractual maturity | | Sub-total | Interest | Total | |
| | 30-90 days | over 90 days | | | | |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Government bonds | 49,805 | - | 49,805 | 26 | 49,831 | - |
| Government bonds | - | 19,047 | 19,047 | 9 | 19,056 | - |
| | 49,805 | 19,047 | 68,852 | 35 | 68,887 | - |

### 29 Accruals and deferred income

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Interest on term deposits | 21,381 | 4,609 |
| Other | 5,074 | 5,032 |
| | 26,455 | 9,641 |

### 30 Provisions

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| At 1 January | 4,753 | 4,226 |
| Movement during the year | (147) | 527 |
| At 31 December | 4,606 | 4,753 |

As part of the Company's normal operations, there are occassionally operational errors that are identifed which impact the Company's clients. The provisions above totaling £4,606,000 have been made in respect of potential compensation obligations as at 31 December 2023. Subsequent to year end, settlement of £4.6 million was made in January 2024 to one of the Company's clients.

The Company fully outsources its operations to other Group affiliates and, under the terms of the relevant inter-affiliate agreements, is able to recover such losses from the service provider responsible for the operation. As at 31 December 2023, the above losses were therefore expected to be fully recovered from the Group entities responsible for providing the services, and corresponding receivable amounts have been recognised within Other assets on the Company's Balance sheet.

### 31 Called up share capital

| | Ordinary shares | |
|---|---|---|
| | 2023 | 2022 |
| | £000 | £000 |
| ***Allotted, called up and fully paid*** | | |
| 519,694,974 ordinary shares of £1 each | 519,695 | 519,695 |

***Luxembourg Net Wealth Tax***

The Company has set aside €564,325 (£489,322) (2022: €984,950 (£871,927) of non-distributable reserves within its Profit and loss account in order to comply with the Net Wealth Tax Law in Luxembourg ("NWT"), following the closure of the Company's Luxembourg Branch. This reserve is non-distributable until the 5-year preservation period with 2023 being the final year.

## 32 Capital resources and requirement

The Company is authorised by the PRA and regulated by the PRA and the FCA to carry on various activities, including the acceptance of deposits. The Company with its subsidiaries is supervised on a solo-consolidated basis by the PRA. The Company's regulatory capital resources management objective is to ensure that it complies with the regulatory requirements set by the PRA. The following table is an analysis of those items which comprise the Company's Regulatory Capital on a solo-consolidated basis.

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| **Tier 1 capital** | | |
| Solo consolidated called up share capital | 519,695 | 519,695 |
| Solo consolidated profit and loss and other reserves | 434,042 | 341,276 |
| **Total tier 1 capital** | 953,737 | 860,971 |
| Deductions from tier 1 capital | (120,324) | (127,937) |
| Intangible assets | (209) | (12) |
| **Total tier 1 capital after deductions** | 833,204 | 733,022 |
| **Tier 2 capital** | | |
| **Total capital resources** | 833,204 | 733,022 |

Risk weighted assets were (unaudited):

| | 2023 | 2022 |
|---|---|---|
| | £000 | £000 |
| Credit risk | 547,812 | 573,052 |
| Market risk | 14,099 | 11,558 |
| Operational risk | 476,661 | 426,019 |
| | 1,038,572 | 1,010,629 |

The Company's capital management is discussed in the section 'capital management' on page 28. The ratios in the remainder of this note are unaudited.

As at 31 December 2023, the Company's capital ratios on a solo-consolidated basis were Common Equity Tier 1 80.23% (2022: 72.53%) and Total Capital 80.23% (2022: 72.53%). Total regulatory capital resources on a solo-consolidated basis as at 31 December 2023 were £833 million (2022: £733 million).

The Company's capital position is calculated for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision (BCBS), as implemented by the European Union in the CRR and CRD and by the PRA rulebook for the UK banking industry. The Company's approach complies with CRR II and the UK Leverage Ratio Framework which took effect from 1 January 2022.

In addition to the tightening of the definition of capital, Basel III introduced a 'Liquidity Coverage Ratio' ("LCR") which is designed to test short-term resilience to liquidity disruptions and a 'Net Stable Funding Ratio', which is designed to test whether long-term assets are funded with at least a minimum amount of stable liabilities. As at 31 December 2023, the Company's LCR was 185% (2022: 168%).

### 33 Transactions involving Directors, officers and others

At 31 December 2023 there were no loans and other transactions made to directors, officers or other related parties of the Company (2022: £nil).

### 34 Ultimate parent company and parent company of larger group

The immediate parent undertaking of the Company is BNY International Financing Corporation, a company registered in the United States of America. BNY International Financing Corporation's registered address is 240 Greenwich Street, New York, NY 10286.

The largest and smallest group in which the results of the Company are consolidated is that headed by The Bank of New York Mellon Corporation, incorporated in the United States of America.

The ultimate parent company as at 31 December 2023 was The Bank of New York Mellon Corporation, incorporated in the United States of America. The consolidated accounts of the ultimate parent company may be obtained from:

The Secretary
The Bank of New York Mellon Corporation
240 Greenwich Street,
New York, NY
10286
USA

# BNYMIL Financial Statements - for Signature

Interim Agreement Report 2024-04-22

| | |
|---|---|
| Created: | 2024-04-19 |
| By: | Form eSign (bny.mellon.esign@bnymellon.com) |
| Status: | Out for Signature |
| Transaction ID: | CBJCHBCAABAAUtiwppIdjb4R4wQXFVwtdOZPBPidtAtn |

Agreement History

Agreement history is the list of the events that have impacted the status of the agreement prior to the final signature. A final audit report will be generated when the agreement is complete.

## "BNYMIL Financial Statements - for Signature" History

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