

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Bank of New York Mellon Corp
Form 10-Q
May 08, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2015

or

Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Commission File No. 001-35651

THE BANK OF NEW YORK MELLON CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-2614959
(I.R.S. Employer Identification No.)

One Wall Street
New York, New York 10286
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code -- (212) 495-1784

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No _____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Large accelerated filer [X]

Accelerated filer []

Non-accelerated filer [] (Do not check if a smaller reporting company)

Smaller reporting company []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding as of March 31, 2015 |
|--------------------------------|-------------------------------------|
| Common Stock, \$0.01 par value | 1,121,511,672 |

THE BANK OF NEW YORK MELLON CORPORATION

First Quarter 2015 Form 10-Q
Table of Contents

| | Page |
|--|-----------|
| <u>Consolidated Financial Highlights (unaudited)</u> | <u>2</u> |
| Part I - Financial Information | |
| Items 2. and 3. Management’s Discussion and Analysis of Financial Condition and Results of Operations; Quantitative and Qualitative Disclosures About Market Risk: | |
| <u>General</u> | <u>4</u> |
| <u>Overview</u> | <u>4</u> |
| <u>Key first quarter 2015 and subsequent events</u> | <u>4</u> |
| <u>Highlights of first quarter 2015 results</u> | <u>6</u> |
| <u>Fee and other revenue</u> | <u>7</u> |
| <u>Net interest revenue</u> | <u>10</u> |
| <u>Average balances and interest rates</u> | <u>11</u> |
| <u>Noninterest expense</u> | <u>12</u> |
| <u>Income taxes</u> | <u>13</u> |
| <u>Review of businesses</u> | <u>13</u> |
| <u>Critical accounting estimates</u> | <u>23</u> |
| <u>Consolidated balance sheet review</u> | <u>23</u> |
| <u>Liquidity and dividends</u> | <u>35</u> |
| <u>Capital</u> | <u>39</u> |
| <u>Trading activities and risk management</u> | <u>45</u> |
| <u>Asset/liability management</u> | <u>47</u> |
| <u>Off-balance sheet arrangements</u> | <u>48</u> |
| <u>Supplemental information - Explanation of GAAP and Non-GAAP financial measures</u> | <u>49</u> |
| <u>Recent accounting and regulatory developments</u> | <u>54</u> |
| <u>Website information</u> | <u>57</u> |
| Item 1. Financial Statements: | |
| <u>Consolidated Income Statement (unaudited)</u> | <u>58</u> |
| <u>Consolidated Comprehensive Income Statement (unaudited)</u> | <u>60</u> |
| <u>Consolidated Balance Sheet (unaudited)</u> | <u>61</u> |
| <u>Consolidated Statement of Cash Flows (unaudited)</u> | <u>62</u> |
| <u>Consolidated Statement of Changes in Equity (unaudited)</u> | <u>63</u> |
| | Page |
| Notes to Consolidated Financial Statements: | |
| <u>Note 1—Basis of presentation</u> | <u>64</u> |
| <u>Note 2—Acquisitions and dispositions</u> | <u>64</u> |
| <u>Note 3—Securities</u> | <u>65</u> |
| <u>Note 4—Loans and asset quality</u> | <u>69</u> |
| <u>Note 5—Goodwill and intangible assets</u> | <u>75</u> |
| <u>Note 6—Other assets</u> | <u>76</u> |
| <u>Note 7—Net interest revenue</u> | <u>78</u> |
| <u>Note 8—Employee benefit plans</u> | <u>78</u> |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | |
|---|------------|
| <u>Note 9—Restructuring charges</u> | <u>78</u> |
| <u>Note 10—Income taxes</u> | <u>79</u> |
| <u>Note 11—Securitized and variable interest entities</u> | <u>80</u> |
| <u>Note 12—Preferred stock</u> | <u>81</u> |
| <u>Note 13—Other comprehensive income (loss)</u> | <u>82</u> |
| <u>Note 14—Fair value measurement</u> | <u>83</u> |
| <u>Note 15—Fair value option</u> | <u>97</u> |
| <u>Note 16—Derivative instruments</u> | <u>98</u> |
| <u>Note 17—Commitments and contingent liabilities</u> | <u>104</u> |
| <u>Note 18—Lines of businesses</u> | <u>110</u> |
| <u>Note 19—Supplemental information to the Consolidated Statement of Cash Flows</u> | <u>112</u> |
| | |
| <u>Item 4. Controls and Procedures</u> | <u>113</u> |
| <u>Forward-looking Statements</u> | <u>114</u> |
| | |
| Part II - Other Information | |
| <u>Item 1. Legal Proceedings</u> | <u>115</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>115</u> |
| <u>Item 6. Exhibits</u> | <u>115</u> |
| | |
| <u>Signature</u> | <u>116</u> |
| <u>Index to Exhibits</u> | <u>117</u> |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

The Bank of New York Mellon Corporation (and its subsidiaries)

Consolidated Financial Highlights (unaudited)

| (dollar amounts in millions, except per common share amounts and unless otherwise noted) | Quarter ended | | | |
|--|----------------|---------------|----------------|---|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 | |
| Results applicable to common shareholders of The Bank of New York Mellon Corporation: | | | | |
| Net income | \$766 | \$209 | \$661 | |
| Basic EPS | 0.67 | 0.18 | 0.57 | |
| Diluted EPS | 0.67 | 0.18 | 0.57 | |
| Fee and other revenue | \$3,002 | \$2,935 | \$2,883 | |
| Income from consolidated investment management funds | 121 | 42 | 36 | |
| Net interest revenue | 728 | 712 | 728 | |
| Total revenue | \$3,851 | \$3,689 | \$3,647 | |
| Return on common equity (annualized) (a) | 8.8 | %2.2 | %7.4 | % |
| Non-GAAP (a)(b) | 9.2 | %7.7 | %7.8 | % |
| Return on tangible common equity (annualized) – Non-GAAP (a) | 20.3 | %5.9 | %17.6 | % |
| Non-GAAP adjusted (a)(b) | 20.2 | %16.3 | %17.3 | % |
| Return on average assets (annualized) | 0.83 | %0.21 | %0.75 | % |
| Fee revenue as a percentage of total revenue excluding net securities gains | 78 | %79 | %79 | % |
| Percentage of non-U.S. total revenue (c) | 36 | %35 | %37 | % |
| Pre-tax operating margin (a) | 30 | %4 | %25 | % |
| Non-GAAP (a)(b) | 30 | %28 | %27 | % |
| Net interest margin (FTE) | 0.97 | %0.91 | %1.05 | % |
| Assets under management at period end (in billions) (d) | \$1,741 | \$1,710 | \$1,620 | |
| Assets under custody and/or administration (“AUC/A”) at period end (in trillions) (e) | \$28.5 | \$28.5 | \$27.9 | |
| Market value of securities on loan at period end (in billions) (f) | \$291 | \$289 | \$264 | |
| Average common shares and equivalents outstanding (in thousands): | | | | |
| Basic | 1,118,602 | 1,120,672 | 1,138,645 | |
| Diluted | 1,126,306 | 1,129,040 | 1,144,510 | |
| Capital ratios | | | | |
| Common equity Tier 1 (“CET1”) ratio (g)(h) | 10.0 | %11.2 | % | |
| Tier 1 capital ratio (g)(h) | 10.9 | %12.2 | % | |
| Total (Tier 1 plus Tier 2) capital ratio (g)(h) | 11.2 | %12.5 | % | |
| Leverage capital ratio (h) | 5.6 | %5.6 | % | |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | |
|---|-----|--------|---|
| BNY Mellon shareholders' equity to total assets ratio – GAAP (a) | 9.4 | % 9.7 | % |
| BNY Mellon common shareholders' equity to total assets ratio – GAAP (a) | 9.0 | % 9.3 | % |
| BNY Mellon tangible common shareholders' equity to tangible assets of operations ratio – Non-GAAP (a) | 6.0 | % 6.5 | % |
| Estimated CET1, fully phased-in – Non-GAAP: (g)(i) | | | |
| Standardized Approach | 9.6 | % 10.6 | % |
| Advanced Approach | 9.2 | % 9.8 | % |
| Estimated supplementary leverage ratio (“SLR”), fully phased-in – Non-GAAP (j) | 4.5 | % 4.4 | % |

BNY Mellon 2

Consolidated Financial Highlights (unaudited) (continued)

| (dollar amounts in millions, except per common share amounts and unless otherwise noted) | Quarter ended | | |
|--|----------------|---------------|----------------|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
| Selected average balances | | | |
| Interest-earning assets | \$308,099 | \$318,608 | \$284,532 |
| Assets of operations | \$366,094 | \$375,609 | \$343,638 |
| Total assets | \$374,890 | \$385,232 | \$354,992 |
| Interest-bearing deposits | \$159,520 | \$163,149 | \$152,986 |
| Noninterest-bearing deposits | \$89,592 | \$85,330 | \$81,430 |
| Preferred stock | \$1,562 | \$1,562 | \$1,562 |
| Total The Bank of New York Mellon Corporation common shareholders' equity | \$35,486 | \$36,859 | \$36,289 |
| Other information at period end | | | |
| Cash dividends per common share | \$0.17 | \$0.17 | \$0.15 |
| Common dividend payout ratio | 25 | %94 | %26 |
| Common dividend yield (annualized) | 1.7 | %1.7 | %1.7 |
| Closing stock price per common share | \$40.24 | \$40.57 | \$35.29 |
| Market capitalization | \$45,130 | \$45,366 | \$40,244 |
| Book value per common share – GAAP (a) | \$31.89 | \$32.09 | \$31.94 |
| Tangible book value per common share – Non-GAAP (a) | \$14.82 | \$14.70 | \$14.48 |
| Full-time employees | 50,500 | 50,300 | 51,400 |
| Common shares outstanding (in thousands) | 1,121,512 | 1,118,228 | 1,140,373 |

(a) See “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 49 for a reconciliation of Non-GAAP measures.

(b) Non-GAAP excludes net income attributable to noncontrolling interests of consolidated investment management funds, amortization of intangible assets, M&I, litigation and restructuring charges, a charge (recovery) related to investment management funds, net of incentives, and the benefit primarily related to a tax carryback claim, if applicable.

(c) Includes fee revenue, net interest revenue and income of consolidated investment management funds, net of net income attributable to noncontrolling interests.

(d) Excludes securities lending cash management assets and assets managed in the Investment Services business.

(e) Includes the AUC/A of CIBC Mellon Global Securities Services Company (“CIBC Mellon”), a joint venture with the Canadian Imperial Bank of Commerce, of \$1.1 trillion at March 31, 2015 and Dec. 31, 2014 and \$1.2 trillion at March 31, 2014.

(f) Represents the total amount of securities on loan managed by the Investment Services business. Excludes securities for which BNY Mellon acts as an agent on behalf of CIBC Mellon clients, which totaled \$69 billion at March 31, 2015, \$65 billion at Dec. 31, 2014 and \$66 billion at March 31, 2014.

(g) Risk-based capital ratios at March 31, 2015 and Dec. 31, 2014 include the net impact of including the total consolidated assets of certain consolidated investment management funds in risk-weighted assets.

(h) At March 31, 2015 and Dec. 31, 2014, the CET1, Tier 1 and Total risk-based consolidated regulatory capital ratios are based on Basel III components of capital, as phased-in, and asset risk-weightings using the Advanced Approach framework. The leverage capital ratio is based on Basel III components of capital and quarterly average total assets, as phased-in. For additional information on these ratios, see “Capital” beginning on page 39.

(i) The estimated fully phased-in CET1 ratios (Non-GAAP) are based on our interpretation of the Final Capital Rules, which are being gradually phased-in over a multi-year period. For additional information on these Non-GAAP ratios, see “Capital” beginning on page 39.

(j) The estimated fully phased-in SLR (Non-GAAP) as of March 31, 2015 and Dec. 31, 2014 are based on our interpretation of the Final Capital Rules, as supplemented by the Federal Reserve’s final rules on the SLR. When fully phased-in, we expect to maintain an SLR of over 5%, 3% attributable to the minimum required SLR, and

greater than 2% attributable to a buffer applicable to U.S. G-SIBs. For additional information on these Non-GAAP ratios, see “Capital” beginning on page 39.

3 BNY Mellon

Part I - Financial Information

Items 2. and 3. Management's Discussion and Analysis of Financial Condition and Results of Operations; Quantitative and Qualitative Disclosures about Market Risk

General

In this Quarterly Report on Form 10-Q, references to "our," "we," "us," "BNY Mellon," the "Company" and similar terms refer to The Bank of New York Mellon Corporation and its consolidated subsidiaries. The term "Parent" refers to The Bank of New York Mellon Corporation but not its subsidiaries.

Certain business terms used in this report are defined in the Glossary included in our Annual Report on Form 10-K for year ended Dec. 31, 2014 ("2014 Annual Report").

The following should be read in conjunction with the Consolidated Financial Statements included in this report. Investors should also read the section titled "Forward-looking Statements."

How we reported results

Throughout this Form 10-Q, certain measures, which are noted as "Non-GAAP financial measures," exclude certain items or otherwise include components that differ from U.S. generally accepted accounting principles ("GAAP"). BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons using measures that relate to our ability to enhance revenues and limit expenses in circumstances where such matters are within our control. We also present the net interest margin on a fully taxable equivalent ("FTE") basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. See "Supplemental information - Explanation of GAAP and Non-GAAP financial measures" beginning on page 49 for a reconciliation of financial measures presented in accordance with GAAP to adjusted Non-GAAP financial measures.

When in this Form 10-Q we refer to BNY Mellon's or our bank subsidiary's "Basel I" capital measures, we mean those capital measures, as calculated under the Board of Governors of the Federal Reserve System's (the "Federal Reserve") risk-based capital rules that

are based on the 1988 Basel Accord, which is often referred to as "Basel I." When we refer to BNY Mellon's "Basel III" capital measures (e.g., Basel III CET1), we mean those capital measures as calculated under the final revised capital rules (the "Final Capital Rules") released by the Federal Reserve on July 2, 2013.

Overview

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK). BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of March 31, 2015, BNY Mellon had \$28.5 trillion in assets under custody and/or administration, and \$1.7 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

Key first quarter 2015 and subsequent events

Capital plan, share repurchase program and issuance of preferred stock

In March 2015, BNY Mellon received confirmation that the Federal Reserve did not object to our 2015 comprehensive capital plan submitted in connection with the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR"). The board of directors subsequently approved the repurchase of up to \$3.1 billion worth of common stock beginning in the second quarter of 2015 and continuing through the second quarter of 2016, including employee benefit plan repurchases. Of the \$3.1 billion authorization, common stock repurchases of \$700 million are contingent on a prior issuance of \$1 billion of qualifying preferred stock.

In conjunction with our capital plan, on April 28, 2015, we completed a \$1 billion offering of preferred stock. We issued 1,000,000 depository shares, each representing a 1/100th interest in a share of BNY

BNY Mellon 4

Mellon's Series E noncumulative perpetual preferred stock. The Series E preferred stock has an aggregate liquidation preference of \$1 billion. BNY Mellon will pay dividends on the Series E preferred stock, if declared by our board of directors, at an annual rate equal to 4.950% on each June 20 and December 20, commencing Dec. 20, 2015, to and including June 20, 2020; and a floating rate equal to three-month LIBOR plus 342 basis points on each March 20, June 20, September 20 and December 20, commencing Sept. 20, 2020.

Settlement agreement with the UK Financial Conduct Authority

The UK Financial Conduct Authority (the "FCA") has been conducting an investigation into compliance by subsidiaries of the Company, The Bank of New York Mellon, London Branch and The Bank of New York Mellon (International) Limited (the "firms"), with the FCA's Client Assets Sourcebook ("CASS Rules"), which sets out the regime in the UK for the protection of client interests. On April 15, 2015, the FCA announced that it had entered into a settlement agreement with the firms in which the firms agreed to pay a fine in the amount of £126 million (or approximately \$190 million), after reduction for an early stage settlement, and to the issuance of a Final Notice by the FCA for failing to comply with the FCA's CASS Rules. This amount is fully covered by pre-existing Company legal reserves.

The firms engaged in a remediation process and have put in place a framework of new and improved policies and operational procedures as well as enhanced their specialist resources across many functions to reinforce their compliance with CASS Rules. The firms' clients suffered no loss as a result of the identified areas of CASS non-compliance.

Sale of Meriten Investment Management

In April 2015, BNY Mellon reached an agreement to sell Meriten Investment Management GmbH, a German-based investment management boutique with approximately \$23 billion in assets under management. The sale is expected to close in the second quarter of 2015, subject to regulatory approval.

Settlement of outstanding foreign exchange related actions

In March 2015, BNY Mellon announced that it has resolved substantially all of the foreign exchange-related actions currently pending against the Company.

The Company reached a series of settlement agreements with the U.S. Department of Justice, the New York Attorney General, the U.S. Department of Labor, the U.S. Securities and Exchange Commission and private customer class actions. Collectively, these settlements fully resolve the lawsuits and enforcement matters pursued by these parties relating to certain of the standing instruction foreign exchange services that BNY Mellon provided to its custody clients prior to early 2012.

The Company has agreed to pay a total of \$714 million to resolve these matters, subject to required approvals. The total settlement amount is fully covered by pre-existing legal reserves. The U.S. Department of Justice and New York Attorney General will each receive \$167.5 million. The U.S. Department of Labor will receive \$14 million and the U.S. Securities and Exchange Commission, with which the Company has reached a settlement in principle, will receive \$30 million. The Company has agreed to pay \$335 million to settle the customer class action litigation.

Real estate fund administration outsourcing

In February 2015, BNY Mellon announced an outsourcing agreement with Deutsche Asset & Wealth Management. Under the agreement, BNY Mellon will provide direct real estate and infrastructure fund finance, fund accounting, asset management accounting, and client and financial reporting functions for Deutsche Asset & Wealth

Management's approximately \$46 billion in assets under administration.

Acquisition of Cutwater Asset Management

In January 2015, BNY Mellon completed the acquisition of Cutwater Asset Management ("Cutwater"), a U.S.-based fixed income and solutions specialist with approximately \$23 billion in assets under management at acquisition. Cutwater will work closely with Insight Investment, one of our investment management boutiques.

5 BNY Mellon

Highlights of first quarter 2015 results

We reported net income applicable to common shareholders of \$766 million or \$0.67 per diluted common share in the first quarter of 2015. In the first quarter of 2014, net income applicable to common shareholders totaled \$661 million, or \$0.57 per diluted common share. In the fourth quarter of 2014, net income applicable to common shareholders totaled \$209 million, or \$0.18 per diluted common share, or \$667 million, or \$0.58 per diluted common share, adjusted for litigation expense, restructuring charges and the benefit of a tax carryback claim. See “Supplemental information - Explanation of GAAP and Non-GAAP financial measures” beginning on page 49 for the reconciliation of Non-GAAP measures.

Highlights of the first quarter of 2015 include:

AUC/A totaled \$28.5 trillion compared with \$27.9 trillion at March 31, 2014. The increase of 2% primarily reflects higher market values and net new business, partially offset by the unfavorable impact of a stronger U.S. dollar. (See the “Investment Services business” beginning on page 19).

AUM, excluding securities lending cash management assets and assets managed in the Investment Services business, totaled a record \$1.74 trillion compared with \$1.62 trillion at March 31, 2014. The 7% increase resulted from higher equity market values, the Cutwater acquisition and net new business, partially offset by the impact of a stronger U.S. dollar. (See the “Investment Management business” beginning on page 16).

Investment services fees totaled \$1.75 billion in the first quarter of 2015, an increase of 3% compared with \$1.70 billion in the first quarter of 2014. The increase primarily reflects higher asset servicing fees driven by net new business and higher market values and higher clearing services fees. (See “Investment Services business” beginning on page 19).

Investment management and performance fees totaled \$854 million compared with \$843 million in the first quarter of 2014, an increase of 1%, or 6% on a constant currency basis (Non-GAAP). The increase was primarily driven by higher equity market values, the impact of the Cutwater acquisition and strategic initiatives, partially

offset by lower performance fees. (See “Investment Management business” beginning on page 16).

Foreign exchange and other trading revenue totaled \$229 million compared with \$136 million in the first quarter of 2014. Foreign exchange revenue totaled \$217 million, an increase of 67% compared with \$130 million in the first quarter of 2014. The increase was driven by higher volumes and volatility, as well as higher Depository Receipts-related activity and the impact of hedging activities, which is primarily offset in investment and other income. Total other trading revenue was \$12 million compared with \$6 million in the first quarter of 2014. The increase reflects higher fixed income trading revenue. (See “Fee and other revenue” beginning on page 7).

Investment and other income totaled \$63 million compared with \$102 million in the first quarter of 2014. The decrease primarily reflects lower lease residual gains. (See “Fee and other revenue” beginning on page 7).

Net interest revenue totaled \$728 million consistent with the first quarter of 2014. An increase in deposits drove an increase in our securities portfolio and offset the impact of lower yields. (See “Net interest revenue” beginning on page 10).

The provision for credit losses was \$2 million in the first quarter of 2015 and a credit of \$18 million in the first quarter of 2014. (See “Asset quality and allowance for credit losses” beginning on page 32).

Noninterest expense totaled \$2.70 billion compared with \$2.74 billion in the first quarter of 2014. The decrease primarily reflects lower expenses in all categories, except sub-custodian which is volume-related and other expense which includes the impact of the new EU Single Resolution Fund. Staff expense decreased 2% primarily reflecting the favorable impact of a stronger U.S. dollar, the curtailment gain related to the U.S. pension plan and lower headcount, partially offset by higher incentive expense. (See “Noninterest expense” beginning on page 12).

The provision for income taxes was \$280 million (24.4% effective tax rate). The effective tax rate is 2.0% lower due to the impact of consolidated investment management funds. (See “Income taxes” on page 13).

BNY Mellon 6

The net unrealized pre-tax gain on the investment securities portfolio was \$1.7 billion compared with \$1.3 billion at Dec. 31, 2014. The increase was primarily driven by a decline in market interest rates. (See “Investment securities” beginning on page 27).

Our estimated Basel III CET1 ratio (Non-GAAP) calculated under the Advanced Approach on a fully phased-in basis was 9.2% at March 31, 2015

and 9.8% at Dec. 31, 2014. The decrease was primarily driven by higher operational risk-weighted assets. Our estimated Basel III CET1 ratio (Non-GAAP) calculated under the Standardized Approach on a fully phased-in basis was 9.6% at March 31, 2015 and 10.6% at Dec. 31, 2014. (See “Capital” beginning on page 39).

Fee and other revenue

| Fee and other revenue (dollars in millions, unless otherwise noted) | 1Q15 | 4Q14 | 1Q14 | 1Q15 vs. 1Q14 | | |
|--|---------|---------|---------|------------------|-----|---|
| | | | | | | |
| Investment services fees: | | | | | | |
| Asset servicing (a) | \$1,038 | \$1,019 | \$1,009 | 3 | %2 | % |
| Clearing services | 344 | 347 | 325 | 6 | (1) |) |
| Issuer services | 232 | 193 | 229 | 1 | 20 | |
| Treasury services | 137 | 145 | 136 | 1 | (6) |) |
| Total investment services fees | 1,751 | 1,704 | 1,699 | 3 | 3 | |
| Investment management and performance fees | 854 | 885 | 843 | 1 | (4) |) |
| Foreign exchange and other trading revenue | 229 | 151 | 136 | 68 | 52 | |
| Distribution and servicing | 41 | 43 | 43 | (5) | (5) |) |
| Financing-related fees | 40 | 43 | 38 | 5 | (7) |) |
| Investment and other income | 63 | 78 | 102 | N/M | N/M | |
| Total fee revenue | 2,978 | 2,904 | 2,861 | 4 | 3 | |
| Net securities gains | 24 | 31 | 22 | N/M | N/M | |
| Total fee and other revenue | \$3,002 | \$2,935 | \$2,883 | 4 | %2 | % |
| AUM at period end (in billions) (b) | \$1,741 | \$1,710 | \$1,620 | 7 | %2 | % |
| AUC/A at period end (in trillions) (c) | \$28.5 | \$28.5 | \$27.9 | 2 | %— | % |

(a) Asset servicing fees include securities lending revenue of \$43 million in the first quarter of 2015, \$37 million in the fourth quarter of 2014 and \$38 million in the first quarter of 2014.

(b) Excludes securities lending cash management assets and assets managed in the Investment Services business.

(c) Includes the AUC/A of CIBC Mellon of \$1.1 trillion at March 31, 2015 and Dec. 31, 2014 and \$1.2 trillion at

March 31, 2014.

N/M - Not meaningful.

Fee and other revenue increased 4% year-over-year and 2% (unannualized) sequentially. The year-over-year increase was driven by higher foreign exchange and other trading revenue, higher asset servicing fees and higher clearing services fees, partially offset by lower investment and other income. Sequentially, the increase primarily reflects higher foreign exchange and other trading revenue, higher issuer services fees and higher asset servicing fees, partially offset by lower investment management and performance fees.

Investment services fees

Investment services fees were impacted by the following compared with the first quarter of 2014 and the fourth quarter of 2014:

Asset servicing fees increased 3% year-over-year and 2% (unannualized) sequentially. The year-over-year increase primarily reflects net new business, largely driven by Global Collateral Services and securities lending, and market values. The sequential increase primarily reflects higher client expense reimbursements, securities lending revenue and Global Collateral Services fees. Both increases were partially offset by the unfavorable impact of a stronger U.S. dollar.

Clearing services fees increased 6% year-over-year and decreased 1% (unannualized) sequentially. The year-over-year increase was primarily driven by higher mutual fund and asset-based fees and higher clearance revenue driven by higher DARTS volume. The sequential decrease was primarily driven by fewer trading days in the first quarter of 2015.

7 BNY Mellon

Issuer services fees increased 1% year-over-year and 20% (unannualized) sequentially. Both increases reflect higher corporate actions in Depository Receipts, partially offset by the unfavorable impact of a stronger U.S. dollar. The sequential increase also reflects higher Corporate Trust fees.

Treasury services fees increased 1% year-over-year and decreased 6% (unannualized) sequentially. The sequential decrease primarily reflects seasonally lower payment volumes.

See the “Investment Services business” in “Review of businesses” for additional details.

Investment management and performance fees

Investment management and performance fees totaled \$854 million in the first quarter of 2015, an increase of 1% year-over-year, or 6% on a constant currency basis (Non-GAAP), driven by higher equity market values, the impact of the Cutwater acquisition and strategic initiatives, partially offset by lower performance fees. Sequentially, investment management and performance fees decreased 4% (unannualized) primarily reflecting seasonally lower performance fees, fewer days in the first quarter of 2015 and the unfavorable impact of a stronger U.S. dollar, partially offset by the impact of the Cutwater acquisition. Performance fees were \$15 million in the first quarter of 2015 compared with \$20 million in the first quarter of 2014 and \$44 million in the fourth quarter of 2014.

Total AUM for the Investment Management business was a record \$1.74 trillion at March 31, 2015, an increase of 7% year-over-year and 2% sequentially. Both increases primarily resulted from higher equity market values, the Cutwater acquisition and net new business, partially offset by the unfavorable impact of a stronger U.S. dollar. Net long-term inflows totaled \$16 billion in the first quarter of 2015 driven by liability-driven, index and fixed income investments, while short-term inflows were \$1 billion.

See the “Investment Management business” in “Review of businesses” for additional details.

Foreign exchange and other trading revenue

| Foreign exchange and other trading revenue (in millions) | 1Q15 | 4Q14 | 1Q14 |
|---|-------|-------|-------|
| Foreign exchange | \$217 | \$165 | \$130 |
| Other trading revenue (loss): | | | |
| Fixed income | 11 | (18) |)1 |
| Equity/other | 1 | 4 | 5 |
| Total other trading revenue (loss) | 12 | (14) |)6 |
| Total foreign exchange and other trading revenue | \$229 | \$151 | \$136 |

Foreign exchange and other trading revenue totaled \$229 million in the first quarter of 2015, \$136 million in the first quarter of 2014 and \$151 million in the fourth quarter of 2014. Foreign exchange revenue totaled \$217 million, an increase of 67% year-over-year and 32% (unannualized) sequentially. Both increases reflect higher volumes and volatility, as well as higher Depository Receipts-related activity and the impact of hedging activities, which is primarily offset in investment and other income. Total other trading revenue was \$12 million in the first quarter of 2015 compared with other trading revenue of \$6 million in the first quarter of 2014 and other trading loss of \$14 million in the fourth quarter of 2014. Both increases primarily reflect higher fixed income trading revenue. The sequential increase also reflects reduced losses on hedging activities within an Investment Management boutique. Foreign exchange revenue and fixed income trading revenue are reported in the Investment Services business and the Other segment. Equity/other trading revenue is primarily reported in the Other segment.

Our foreign exchange trading generates revenues which are influenced by the volume of client transactions and the spread realized on these transactions. Revenues are impacted by market pressures which continue to be increasingly competitive. The level of volume and spreads is affected by market volatility, the level of cross-border assets held in custody for clients, the level and nature of underlying cross-border investments and other transactions undertaken by corporate and institutional clients. These revenues also depend on our ability to manage the risk associated with the currency transactions we execute. Generally speaking, custody clients enter into foreign exchange transactions in one of three ways: negotiated trading with BNY Mellon, BNY Mellon's standing instruction programs, or transactions with third-party foreign exchange

BNY Mellon 8

providers. For a description of these foreign exchange trading options, see “Fee and other revenue” in our 2014 Annual Report.

A shift by custody clients from the standing instruction programs to other trading options combined with competitive market pressures on the foreign exchange business may negatively impact our foreign exchange revenue. For the quarter ended March 31, 2015, our total revenue for all types of foreign exchange trading transactions was \$217 million, or approximately 6% of our total revenue, and approximately 31% of our foreign exchange revenue resulted from foreign exchange transactions undertaken through our standing instruction programs.

We continue to invest in our foreign exchange trading and execution capabilities, which is leading towards enhanced client service and higher volumes.

Distribution and servicing fees

Distribution and servicing fee revenue was \$41 million in the first quarter of 2015 and \$43 million in both the first quarter of 2014 and the fourth quarter of 2014.

Financing-related fees

Financing-related fees, which are primarily reported in the Other segment, include capital markets fees, loan commitment fees and credit-related fees. Financing-related fees totaled \$40 million in the first quarter of 2015, \$38 million in the first quarter of 2014 and \$43 million in the fourth quarter of 2014.

Investment and other income

| Investment and other income (in millions) | 1Q15 | 4Q14 | 1Q14 |
|--|------|------|-------|
| Corporate/bank-owned life insurance | \$33 | \$37 | \$30 |
| Seed capital gains | 15 | — | 6 |
| Expense reimbursements from joint venture | 14 | 15 | 12 |
| Asset-related gains (losses) | 3 | 20 | (1 |
| Lease residual gains (losses) | (1 |)5 | 35 |
| Private equity gains (losses) | (3 |)1 | 5 |
| Equity investment revenue (loss) | (4 |)5 |)2 |
| Other income | 6 | 5 | 17 |
| Total investment and other income | \$63 | \$78 | \$102 |

Investment and other income, which is primarily reported in the Other segment and Investment Management business, includes insurance contracts, seed capital gains, expense reimbursements from our CIBC Mellon joint venture, asset-related gains and losses, lease residual gains and losses, gains and losses on private equity investments, equity investments, and other income. Expense reimbursements from our CIBC Mellon joint venture relate to expenses incurred by BNY Mellon on behalf of the CIBC Mellon joint venture. Asset-related gains (losses) include real estate, loans and other asset dispositions. Other income primarily includes foreign currency remeasurement gain (loss), other investments and various miscellaneous revenues. Investment and other income decreased \$39 million compared with the first quarter of 2014 and \$15 million compared to the fourth quarter of 2014. The year-over-year decrease primarily reflects lower lease residual gains. The sequential decrease primarily reflects lower asset-related gains.

9 BNY Mellon

Net interest revenue

| Net interest revenue (dollars in millions) | 1Q15 | 4Q14 | 1Q14 | 1Q15 vs. | |
|---|-----------|-----------|-----------|----------|-----------|
| | | | | 1Q14 | 4Q14 |
| Net interest revenue (non-FTE) | \$728 | \$712 | \$728 | — | % 2 % |
| Tax equivalent adjustment | 15 | 14 | 16 | (6) | 7 |
| Net interest revenue (FTE) – Non-GAAP | \$743 | \$726 | \$744 | — | % 2 % |
| Average interest-earning assets | \$308,099 | \$318,608 | \$284,532 | 8 | % (3)% |
| Net interest margin (FTE) | 0.97 | %0.91 | %1.05 | % (8) | bps 6 bps |

Net interest revenue totaled \$728 million in the first quarter of 2015, unchanged compared with the first quarter of 2014 and an increase of \$16 million sequentially. Year-over-year, the increase in deposits drove the growth in our securities portfolio and offset the impact of lower yields. The sequential increase was primarily driven by a change in the mix of assets, partially offset by fewer days in the first quarter of 2015. Lower hedging losses in the first quarter of 2015 were primarily offset by lower accretion and higher amortization.

The net interest margin (FTE) was 0.97% in the first quarter of 2015 compared with 1.05% in the first quarter of 2014 and 0.91% in the fourth quarter of 2014. The year-over-year decrease primarily reflects lower yields on interest-earning assets, partially offset by lower rates on interest-bearing liabilities. The sequential increase was primarily driven by the change in the mix of interest-earning assets as securities and loans both represent a higher percentage of interest-earning assets.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| Average balances and interest rates (dollar amounts in millions, presented on an FTE basis) | Quarter ended March 31, 2015 | | Dec. 31, 2014 | | March 31, 2014 | |
|---|---------------------------------|------------------|--------------------|------------------|--------------------|------------------|
| | Average balance | Average rates | Average balance | Average rates | Average balance | Average rates |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-bearing deposits with banks (primarily foreign banks) | \$22,071 | 0.56 % | \$24,623 | 0.49 % | \$41,617 | 0.71 % |
| Interest-bearing deposits held at the Federal Reserve and other central banks | 81,160 | 0.23 | 97,440 | 0.22 | 74,399 | 0.25 |
| Federal funds sold and securities purchased under resale agreements | 20,411 | 0.59 | 18,536 | 0.56 | 11,118 | 0.61 |
| Margin loans | 20,051 | 1.00 | 18,897 | 1.01 | 15,840 | 1.07 |
| Non-margin loans: | | | | | | |
| Domestic offices | 25,256 | 2.14 | 25,103 | 2.20 | 22,002 | 2.31 |
| Foreign offices | 12,628 | 1.24 | 12,844 | 1.21 | 13,805 | 1.26 |
| Total non-margin loans | 37,884 | 1.84 | 37,947 | 1.86 | 35,807 | 1.90 |
| Securities: | | | | | | |
| U.S. Government obligations | 27,454 | 1.38 | 24,331 | 1.48 | 17,213 | 1.61 |
| U.S. Government agency obligations | 52,744 | 1.68 | 49,106 | 1.70 | 42,710 | 1.87 |
| State and political subdivisions – tax-exempt | 5,213 | 2.64 | 5,305 | 2.61 | 6,691 | 2.50 |
| Other securities | 38,065 | 1.33 | 38,501 | 1.23 | 33,920 | 1.64 |
| Trading securities | 3,046 | 2.46 | 3,922 | 2.64 | 5,217 | 2.60 |
| Total securities | 126,522 | 1.57 | 121,165 | 1.58 | 105,751 | 1.83 |
| Total interest-earning assets | \$308,099 | 1.07 % | \$318,608 | 1.02 % | \$284,532 | 1.17 % |
| Allowance for loan losses | (191) | | (186) | | (210) | |
| Cash and due from banks | 6,204 | | 4,715 | | 5,886 | |
| Other assets | 51,982 | | 52,472 | | 53,430 | |
| Assets of consolidated investment management funds | 8,796 | | 9,623 | | 11,354 | |
| Total assets | \$374,890 | | \$385,232 | | \$354,992 | |
| Liabilities | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Money market rate accounts | \$6,819 | 0.09 % | \$6,258 | 0.11 % | \$5,660 | 0.13 % |
| Savings | 1,429 | 0.30 | 1,262 | 0.30 | 1,034 | 0.25 |
| Demand deposits | 3,202 | 0.19 | 2,611 | 0.15 | 3,673 | 0.08 |
| Time deposits | 43,259 | 0.04 | 41,507 | 0.04 | 41,544 | 0.04 |
| Foreign offices | 104,811 | 0.03 | 111,511 | 0.02 | 101,075 | 0.06 |
| Total interest-bearing deposits | 159,520 | 0.04 | 163,149 | 0.03 | 152,986 | 0.06 |
| Federal funds purchased and securities sold under repurchase agreements | 13,872 | (0.09) | 20,285 | (0.05) | 14,505 | (0.13) |
| Trading liabilities | 795 | 1.07 | 1,024 | 1.44 | 1,978 | 1.59 |
| Other borrowed funds | 995 | 0.96 | 870 | 1.06 | 1,035 | 0.51 |
| Commercial paper | 1,113 | 0.09 | 4,400 | 0.09 | 102 | 0.05 |
| Payables to customers and broker-dealers | 10,932 | 0.07 | 10,484 | 0.08 | 8,883 | 0.09 |
| Long-term debt | 20,199 | 1.21 | 21,187 | 1.27 | 20,420 | 1.09 |
| Total interest-bearing liabilities | \$207,426 | 0.15 % | \$221,399 | 0.16 % | \$199,909 | 0.17 % |
| Total noninterest-bearing deposits | 89,592 | | 85,330 | | 81,430 | |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | | | |
|---|-----------|-----------|-----------|---|------|---|
| Other liabilities | 32,340 | 30,743 | 24,608 | | | |
| Liabilities and obligations of consolidated investment management funds | 7,038 | 8,101 | 10,128 | | | |
| Total liabilities | 336,396 | 345,573 | 316,075 | | | |
| Temporary equity | | | | | | |
| Redeemable noncontrolling interests | 233 | 251 | 246 | | | |
| Permanent equity | | | | | | |
| Total BNY Mellon shareholders' equity | 37,048 | 38,421 | 37,851 | | | |
| Noncontrolling interests | 1,213 | 987 | 820 | | | |
| Total permanent equity | 38,261 | 39,408 | 38,671 | | | |
| Total liabilities, temporary equity and permanent equity | \$374,890 | \$385,232 | \$354,992 | | | |
| Net interest margin (FTE) | 0.97 | % | 0.91 | % | 1.05 | % |

Note: Interest and average rates were calculated on a taxable equivalent basis, at tax rates approximating 35%, using dollar amounts in thousands and actual number of days in the year.

Noninterest expense

| Noninterest expense (dollars in millions) | 1Q15 | 4Q14 | 1Q14 | 1Q15 vs. 1Q14 | | 4Q14 | |
|--|---------|---------|---------|------------------|----|------|-----|
| Staff: | | | | | | | |
| Compensation | \$871 | \$893 | \$925 | (6 |)% | (2 |)% |
| Incentives | 425 | 319 | 359 | 18 | | 33 | |
| Employee benefits | 189 | 206 | 227 | (17 |) | (8 |) |
| Total staff | 1,485 | 1,418 | 1,511 | (2 |) | 5 | |
| Professional, legal and other purchased services | 302 | 390 | 312 | (3 |) | (23 |) |
| Software | 158 | 160 | 152 | 4 | | (1 |) |
| Net occupancy | 151 | 150 | 154 | (2 |) | 1 | |
| Distribution and servicing | 98 | 102 | 107 | (8 |) | (4 |) |
| Furniture and equipment | 70 | 75 | 85 | (18 |) | (7 |) |
| Sub-custodian | 70 | 70 | 68 | 3 | | — | |
| Business development | 61 | 75 | 64 | (5 |) | (19 |) |
| Other | 242 | 211 | 223 | 9 | | 15 | |
| Amortization of intangible assets | 66 | 73 | 75 | (12 |) | (10 |) |
| M&I, litigation and restructuring charges | (3 |) | 800 | (12 |) | N/M | N/M |
| Total noninterest expense – GAAP | \$2,700 | \$3,524 | \$2,739 | (1 |)% | (23 |)% |

Total staff expense as a percentage of total revenue 39 % 38 % 41 %

Full-time employees at period end 50,500 50,300 51,400 (2

Memo:

| | | | | | | | |
|---|---------|---------|---------|----|----|----|----|
| Total noninterest expense excluding amortization of intangible assets, M&I, litigation and restructuring charges and the charge (recovery) related to investment management funds, net of incentives – Non-GAAP | \$2,637 | \$2,651 | \$2,681 | (2 |)% | (1 |)% |
|---|---------|---------|---------|----|----|----|----|

N/M - Not meaningful.

Total noninterest expense was \$2.7 billion in the first quarter of 2015, a decrease of 1% year-over-year and 23% (unannualized) sequentially. The sequential decrease primarily reflects lower litigation expense and professional, legal and other purchased services, partially offset by higher staff expense. Excluding amortization of intangible assets, M&I, litigation and restructuring charges and the charge (recovery) related to investment management funds, net of incentives (Non-GAAP), noninterest expense decreased 2% year-over-year and 1% (unannualized) sequentially. Both comparisons reflect lower expenses primarily due to the favorable impact of a stronger U.S. dollar and reducing structural costs.

We continue to invest in our compliance, risk and other control functions in light of increasing regulatory requirements. While our expenses remain high in those areas as a result of the need to hire additional staff and advisors and to enhance our technology platforms, we expect the rate of related expense growth to slow as new rules are implemented. However, heightened expectations of global regulators may increase expenses beyond our current estimates.

Staff expense

Given our mix of fee-based businesses, which are staffed with high-quality professionals, staff expense comprised 56% of total noninterest expense in the first quarter of 2015, 57% in the first quarter of 2014 and 53% in the fourth quarter of 2014, excluding amortization of intangible assets, M&I, litigation and restructuring charges and the charge (recovery) related to investment management funds, net of incentives. Headcount was primarily driven by streamlining actions, partially offset by an acquisition in the first quarter of 2015.

Staff expense was \$1.5 billion in the first quarter of 2015, a decrease of 2% compared with the first quarter of 2014 and an increase of 5% (unannualized) compared with the fourth quarter of 2014. The decrease compared with the first quarter of 2014 primarily reflects lower compensation expense driven by the favorable impact of a stronger U.S. dollar and lower headcount, and lower employee benefits expense reflecting the curtailment gain related to the U.S. pension plan. The decrease was partially offset by higher incentive expense reflecting better performance, a lower adjustment for the finalization

BNY Mellon 12

of the annual incentive awards and the impact of vesting of the long-term stock awards for retirement eligible employees. The increase in staff expense compared with the fourth quarter of 2014 primarily reflects higher incentive expense reflecting better performance and the impact of vesting of the long-term stock awards for retirement eligible employees, partially offset by the lower employee benefits expense reflecting the curtailment gain related to the U.S. pension plan.

Non-staff expense

Non-staff expense, excluding amortization of intangible assets, M&I, litigation and restructuring charges, and the charge (recovery) related to investment management funds, net of incentives (Non-GAAP), totaled \$1.2 billion in the first quarter of 2015, a slight decrease compared with the first quarter of 2014 and a 7% (unannualized) decrease compared with the fourth quarter of 2014. The slight decrease compared with first quarter of 2014 reflects lower expenses in all categories, except sub-custodian which is volume-related and other expense which includes the impact of the new EU Single Resolution Fund. These lower expenses primarily reflect the favorable impact of a stronger U.S. dollar and the benefit of the business improvement process which focuses on reducing structural costs. The sequential decrease primarily reflects lower professional, legal and other purchased services primarily related to the implementation of strategic platforms incurred in the fourth quarter of 2014 and lower legal expense, and the seasonal decrease in business development expense, partially offset by higher other expense reflecting the impact of the new EU Single Resolution Fund.

For additional information on restructuring charges, see Note 9 of the Notes to Consolidated Financial Statements.

Income taxes

BNY Mellon recorded an income tax provision of \$280 million (24.4% effective tax rate) in the first quarter of 2015. The effective tax rate is 2.0% lower as a result of the impact of consolidated investment management funds. The income tax provision was \$232 million (25.1% effective tax rate) in the first quarter of 2014. The benefit for income taxes was \$93 million in the fourth quarter of 2014 including tax benefits of approximately \$330 million related to

a litigation provision and the previously disclosed approval of a tax carryback claim.

We expect the effective tax rate to be approximately 25-26% in the second quarter of 2015.

Review of businesses

We have an internal information system that produces performance data along product and service lines for our two principal businesses and the Other segment.

Business accounting principles

Our business data has been determined on an internal management basis of accounting, rather than the generally accepted accounting principles used for consolidated financial reporting. These measurement principles are designed so that reported results of the businesses will track their economic performance.

For information on the accounting principles of our businesses, the primary types of revenue by business and how our businesses are presented and analyzed, see Note 18 of the Notes to Consolidated Financial Statements.

Business results are subject to reclassification whenever organizational changes are made or when improvements are made in the measurement principles.

The results of our businesses may be influenced by client activities that vary by quarter. In the second quarter, we typically experience an increase in securities lending fees due to an increase in demand to borrow securities outside of the United States. In the third quarter, Depositary Receipts and related foreign exchange revenue is typically higher due to an increased level of client dividend payments paid in the quarter. Also in the third quarter, volume-related fees may decline due to reduced client activity. In the fourth quarter, we typically incur higher business development and marketing expenses. In our Investment Management business, performance fees are typically higher in the fourth quarter, as the fourth quarter represents the end of the measurement period for many of the performance fee-eligible relationships.

The results of our businesses may also be impacted by the translation of financial results denominated in foreign currencies to the U.S. dollar. We are

13 BNY Mellon

primarily impacted by activities denominated in the British pound and the Euro. On a consolidated basis and in our Investment Services business, we typically have more foreign currency denominated expenses than revenues. However, our Investment Management business typically has more foreign currency denominated revenues than expenses. As a

result, currency fluctuations impact the Investment Management business more than the Investment Services business. However, currency fluctuations, in isolation, are not expected to significantly impact net income on a consolidated basis.

The following table presents key market metrics at period end and on an average basis.

| Key market metrics | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 | 1Q15 vs. | | |
|---|--------|--------|--------|--------|--------|----------|-------|----|
| | | | | | | 1Q14 | 4Q14 | |
| S&P 500 Index (a) | 1872 | 1960 | 1972 | 2059 | 2068 | 10 | % — | % |
| S&P 500 Index – daily average | 1835 | 1900 | 1976 | 2009 | 2064 | 12 | 3 | |
| FTSE 100 Index (a) | 6598 | 6744 | 6623 | 6566 | 6773 | 3 | 3 | |
| FTSE 100 Index – daily average | 6680 | 6764 | 6756 | 6526 | 6793 | 2 | 4 | |
| MSCI World Index (a) | 1674 | 1743 | 1698 | 1710 | 1741 | 4 | 2 | |
| MSCI World Index – daily average | 1647 | 1698 | 1733 | 1695 | 1726 | 5 | 2 | |
| Barclays Capital Global Aggregate Bond SM Index (a)(b) | 365 | 376 | 361 | 357 | 348 | (5 |) (3 |) |
| NYSE and NASDAQ share volume (in billions) | 196 | 187 | 173 | 198 | 187 | (5 |) (6 |) |
| JPMorgan G7 Volatility Index – daily average (c) | 7.80 | 6.22 | 6.21 | 8.54 | 10.40 | 33 | 22 | |
| Average Fed Funds effective rate | 0.07 | %0.09 | %0.09 | %0.10 | %0.11 | %4 bps | 1 bps | |
| Foreign exchange rates vs. U.S. dollar: | | | | | | | | |
| British pound - average rate | \$1.66 | \$1.68 | \$1.67 | \$1.58 | \$1.51 | (9 |)%(4 |)% |
| Euro - average rate | 1.37 | 1.37 | 1.33 | 1.25 | 1.13 | (18 |) (10 |) |

(a) Period end.

(b) Unhedged in U.S. dollar terms.

(c) The JPMorgan G7 Volatility Index is based on the implied volatility in 3-month currency options. bps – basis points.

Fee revenue in Investment Management, and to a lesser extent in Investment Services, is impacted by the value of market indices. At March 31, 2015, using the Standard & Poor's "(S&P)" 500 Index as a proxy for the global equity markets, we estimate that a 100-point change in the value of the S&P 500 Index

spread evenly throughout the year, would impact fee revenue by less than 1% and diluted earnings per common share by \$0.02 to \$0.04. If however, global equity markets do not perform in line with the S&P 500 Index, the impact to fee revenue and earnings per share could be different.

The following consolidating schedules show the contribution of our businesses to our overall profitability.

| For the quarter ended March 31, 2015 (dollar amounts in millions) | Investment Management | Investment Services | Other | Consolidated |
|--|--------------------------|------------------------|-------|--------------|
|--|--------------------------|------------------------|-------|--------------|

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | | | |
|--|----------|-----|-----------|----------|-----------|-----|
| Fee and other revenue | \$936 | (a) | \$1,993 | \$104 | \$3,033 | (a) |
| Net interest revenue | 74 | | 600 | 54 | 728 | |
| Total revenue | 1,010 | (a) | 2,593 | 158 | 3,761 | (a) |
| Provision for credit losses | — | | — | 2 | 2 | |
| Noninterest expense | 746 | | 1,838 | 116 | 2,700 | |
| Income before taxes | \$264 | (a) | \$755 | \$40 | \$1,059 | (a) |
| Pre-tax operating margin (b) | 26 | % | 29 | % N/M | 28 | % |
| Average assets | \$37,496 | | \$284,978 | \$52,416 | \$374,890 | |
| Excluding amortization of intangible assets: | | | | | | |
| Noninterest expense | \$721 | | \$1,797 | \$116 | \$2,634 | |
| Income before taxes | 289 | (a) | 796 | 40 | 1,125 | (a) |
| Pre-tax operating margin (b) | 29 | % | 31 | % N/M | 30 | % |

Both total fee and other revenue and total revenue include the net income from consolidated investment (a) management funds of \$31 million, representing \$121 million of income and noncontrolling interests of \$90 million.

Income before taxes is net of noncontrolling interests of \$90 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| For the quarter ended Dec. 31, 2014 (dollar amounts in millions) | Investment Management | | Investment Services | Other | Consolidated | |
|---|--------------------------|-----|------------------------|----------|--------------|-----|
| Fee and other revenue | \$929 | (a) | \$1,907 | \$117 | \$2,953 | (a) |
| Net interest revenue | 69 | | 574 | 69 | 712 | |
| Total revenue | 998 | (a) | 2,481 | 186 | 3,665 | (a) |
| Provision for credit losses | — | | — | 1 | 1 | |
| Noninterest expense | 759 | | 2,555 | 210 | 3,524 | |
| Income (loss) before taxes | \$239 | (a) | \$(74) | \$(25) | \$140 | (a) |
| Pre-tax operating margin (b) | 24 | % | (3)% | N/M | 4 | % |
| Average assets | \$37,286 | | \$276,586 | \$71,360 | \$385,232 | |
| Excluding amortization of intangible assets: | | | | | | |
| Noninterest expense | \$729 | | \$2,512 | \$210 | \$3,451 | |
| Income (loss) before taxes | 269 | (a) | (31) | (25) | 213 | (a) |
| Pre-tax operating margin (b) | 27 | % | (1)% | N/M | 6 | % |

Both total fee and other revenue and total revenue include the net income from consolidated investment (a) management funds of \$18 million, representing \$42 million of income and noncontrolling interests of \$24 million.

Income before taxes is net of noncontrolling interests of \$24 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

| For the quarter ended March 31, 2014 (dollar amounts in millions) | Investment Management | | Investment Services | Other | Consolidated | |
|--|--------------------------|-----|------------------------|----------|--------------|-----|
| Fee and other revenue | \$900 | (a) | \$1,887 | \$112 | \$2,899 | (a) |
| Net interest revenue | 70 | | 590 | 68 | 728 | |
| Total revenue | 970 | (a) | 2,477 | 180 | 3,627 | (a) |
| Provision for credit losses | — | | — | (18) | (18) | |
| Noninterest expense | 724 | | 1,822 | 193 | 2,739 | |
| Income before taxes | \$246 | (a) | \$655 | \$5 | \$906 | (a) |
| Pre-tax operating margin (b) | 25 | % | 26 % | N/M | 25 | % |
| Average assets | \$39,463 | | \$258,470 | \$57,059 | \$354,992 | |
| Excluding amortization of intangible assets: | | | | | | |
| Noninterest expense | \$693 | | \$1,778 | \$193 | \$2,664 | |
| Income before taxes | 277 | (a) | 699 | 5 | 981 | (a) |
| Pre-tax operating margin (b) | 29 | % | 28 % | N/M | 27 | % |

Both total fee and other revenue and total revenue include net income from consolidated investment management (a) funds of \$16 million, representing \$36 million of income and noncontrolling interests of \$20 million. Income before taxes is net of noncontrolling interests of \$20 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

Investment Management business

| (dollar amounts in millions) | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 | 1Q15 vs. 1Q14 4Q14 | | |
|---|----------|----------|----------|----------|----------|-----------------------|---------|--|
| Revenue: | | | | | | | | |
| Investment management fees: | | | | | | | | |
| Mutual funds | \$299 | \$311 | \$315 | \$306 | \$301 | 1 | % (2)% | |
| Institutional clients | 372 | 385 | 382 | 375 | 376 | 1 | — | |
| Wealth management | 153 | 156 | 158 | 157 | 158 | 3 | 1 | |
| Investment management fees | 824 | 852 | 855 | 838 | 835 | 1 | — | |
| Performance fees | 20 | 29 | 22 | 44 | 15 | (25) | N/M | |
| Investment management and performance fees | 844 | 881 | 877 | 882 | 850 | 1 | (4) | |
| Distribution and servicing | 40 | 41 | 41 | 40 | 39 | (3) | (3) | |
| Other (a) | 16 | 48 | 16 | 7 | 47 | N/M | N/M | |
| Total fee and other revenue (a) | 900 | 970 | 934 | 929 | 936 | 4 | 1 | |
| Net interest revenue | 70 | 66 | 69 | 69 | 74 | 6 | 7 | |
| Total revenue | 970 | 1,036 | 1,003 | 998 | 1,010 | 4 | 1 | |
| Noninterest expense (ex. amortization of intangible assets and the charge (recovery) related to investment management funds, net of incentives) | | | | | | | | |
| Income before taxes (ex. amortization of intangible assets and the charge (recovery) related to investment management funds, net of incentives) | 272 | 311 | 276 | 269 | 289 | 6 | 7 | |
| Amortization of intangible assets | 31 | 31 | 31 | 30 | 25 | (19) | (17) | |
| Charge (recovery) related to investment management funds, net of incentives | (5) | 109 | — | — | — | N/M | N/M | |
| Income before taxes | \$246 | \$171 | \$245 | \$239 | \$264 | 7 | % 10 % | |
| Pre-tax operating margin | 25 | % 16 | % 24 | % 24 | % 26 | % | | |
| Adjusted pre-tax operating margin (b) | 34 | % 36 | % 33 | % 32 | % 34 | % | | |
| Wealth management: | | | | | | | | |
| Average loans | \$10,075 | \$10,372 | \$10,772 | \$11,124 | \$11,634 | 15 | % 5 % | |
| Average deposits | \$14,805 | \$13,458 | \$13,764 | \$14,604 | \$15,218 | 3 | % 4 % | |

(a) Total fee and other revenue includes the impact of the consolidated investment management funds, net of noncontrolling interests. See “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 49 for the reconciliation of Non-GAAP measures. Additionally, other revenue includes asset servicing, treasury services, foreign exchange and other trading revenue and investment and other income.

(b) Excludes the net negative impact of money market fee waivers, amortization of intangible assets and the charge (recovery) related to investment management funds, net of incentives, and is net of distribution and servicing expense. See “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 49 for the reconciliation of this Non-GAAP measure.

N/M - Not meaningful.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| AUM trends (a) (dollar amounts in billions) | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 | 1Q15 vs. 1Q14 4Q14 | | | | |
|--|---------|---------|---------|---------|---------|-----------------------|----|-----|----|---|
| AUM at period end, by product type: | | | | | | | | | | |
| Equity | \$277 | \$282 | \$267 | \$264 | \$264 | (5 |) | %— | % | |
| Fixed income | 224 | 224 | 221 | 222 | 227 | 1 | | 2 | | |
| Index | 328 | 353 | 345 | 357 | 383 | 17 | | 7 | | |
| Liability-driven investments (b) | 436 | 436 | 455 | 504 | 510 | 17 | | 1 | | |
| Alternative investments | 63 | 66 | 65 | 66 | 59 | (6 |) | (11 |) | |
| Cash | 292 | 275 | 293 | 297 | 298 | 2 | | — | | |
| Total AUM | \$1,620 | \$1,636 | \$1,646 | \$1,710 | \$1,741 | 7 | | % 2 | % | |
| AUM at period end, by client type: | | | | | | | | | | |
| Institutional | \$1,118 | \$1,109 | \$1,131 | \$1,187 | \$1,210 | 8 | | % 2 | % | |
| Mutual funds | 415 | 440 | 430 | 438 | 445 | 7 | | 2 | | |
| Private client | 87 | 87 | 85 | 85 | 86 | (1 |) | 1 | | |
| Total AUM | \$1,620 | \$1,636 | \$1,646 | \$1,710 | \$1,741 | 7 | | % 2 | % | |
| Changes in AUM: | | | | | | | | | | |
| Beginning balance of AUM | \$1,583 | \$1,620 | \$1,636 | \$1,646 | \$1,710 | | | | | |
| Net inflows (outflows): | | | | | | | | | | |
| Long-term: | | | | | | | | | | |
| Equity | (1 |) | (4 |) | (2 |) | (4 |) | (6 |) |
| Fixed income | — | (1 |) | — | 4 | | 4 | | | |
| Index | — | 7 | (3 |) | 1 | | 8 | | | |
| Liability-driven investments (b) | 20 | (17 |) | 18 | 24 | | 8 | | | |
| Alternative investments | 2 | 2 | — | 2 | 2 | | | | | |
| Total long-term inflows (outflows) | 21 | (13 |) | 13 | 27 | | 16 | | | |
| Short term: | | | | | | | | | | |
| Cash | (7 |) | (18 |) | 19 | | 5 | | 1 | |
| Total net inflows (outflows) | 14 | (31 |) | 32 | 32 | | 17 | | | |
| Net market/currency impact/acquisition | 23 | 47 | (22 |) | 32 | | 14 | | | |
| Ending balance of AUM | \$1,620 | \$1,636 | \$1,646 | \$1,710 | \$1,741 | 7 | | % 2 | % | |

(a)Excludes securities lending cash management assets and assets managed in the Investment Services business.

(b)Includes currency and overlay assets under management.

Business description

Our Investment Management business consists of our affiliated investment management boutiques, wealth management business and global distribution companies. See pages 24 and 25 of our 2014 Annual Report for additional information on our Investment Management business.

Review of financial results

Investment management and performance fees are dependent on the overall level and mix of AUM and the management fees expressed in basis points (one-hundredth of one percent) charged for managing those assets. Assets under management were a record \$1.74 trillion compared with \$1.62 trillion at March 31, 2014 and \$1.71 trillion at Dec. 31, 2014. Both increases primarily resulted from higher equity market values, the Cutwater acquisition and net new business, partially offset by the unfavorable impact of a stronger U.S. dollar. Net long-term inflows were \$16 billion driven by liability-driven, index and fixed

income investments. Net short-term inflows were \$1 billion.

Total revenue was \$1.0 billion, an increase of 4% compared with the first quarter of 2014 and 1% (unannualized) compared with the fourth quarter of 2014. The increase compared with the first quarter of 2014 primarily reflects higher equity market values and seed capital gains, partially offset by the unfavorable impact of a stronger U.S. dollar. The increase compared with the fourth quarter of 2014 primarily reflects higher seed capital gains and reduced trading losses, partially offset by seasonally lower performance fees.

Revenue generated in the Investment Management business included 42% from non-U.S. sources compared with 45% in the first quarter of 2014 and 44% in the fourth quarter of 2014.

Investment management fees in the Investment Management business were \$835 million, an increase of 1%, or 7% on a constant currency basis (Non-

GAAP) compared with \$824 million in the first quarter of 2014 driven by higher equity market values, the impact of the Cutwater acquisition and strategic initiatives. Investment management fees decreased slightly compared with the fourth quarter of 2014 reflecting fewer days in the first quarter of 2015 and the unfavorable impact of a stronger U.S. dollar, partially offset by the impact of the Cutwater acquisition.

In the first quarter of 2015, 36% of investment management fees in the Investment Management business were generated from managed mutual fund fees. These fees are based on the daily average net assets of each fund and the management fee paid by that fund. Managed mutual fund fee revenue was \$301 million compared with \$299 million in the first quarter of 2014 and \$306 million in the fourth quarter of 2014. The increase compared with the first quarter of 2014 primarily resulted from higher equity market values. The decrease compared with the fourth quarter of 2014 reflects fewer days in the first quarter of 2015 and the unfavorable impact of a stronger U.S. dollar.

Performance fees were \$15 million compared with \$20 million in the first quarter of 2014 and \$44 million in the fourth quarter of 2014. The sequential decrease was driven by seasonality.

Distribution and servicing fees were \$39 million compared with \$40 million in both the first quarter of 2014 and the fourth quarter of 2014.

Other fee revenue was \$47 million compared with \$16 million in the first quarter of 2014 and \$7 million in the fourth quarter of 2014. Both increases primarily reflect higher seed capital gains. The increase compared with the fourth quarter of 2014 also reflects reduced losses on hedging activities within a boutique.

Net interest revenue was \$74 million compared with \$70 million in the first quarter of 2014 and \$69 million in the fourth quarter of 2014. Both increases primarily reflect higher loan and deposit levels.

Average loans increased 15% year-over-year and 5% sequentially, while average deposits increased 3% year-over-year and 4% sequentially.

Noninterest expense, excluding amortization of intangible assets and the charge (recovery) related to investment management funds, net of incentives, was \$721 million compared with \$698 million in the first quarter of 2014 and \$729 million in the fourth quarter of 2014. The increase compared with the first quarter of 2014 reflects higher compensation and purchased services expenses resulting from the Cutwater acquisition and investments in strategic initiatives and higher incentive expense. The decrease compared with the fourth quarter of 2014 primarily resulted from lower litigation, legal and distribution and servicing expenses, partially offset by higher incentive expense and the impact of the Cutwater acquisition. Both comparisons reflect the favorable impact of a stronger U.S. dollar.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Investment Services business

| (dollar amounts in millions, unless otherwise noted) | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 | 1Q15 vs. | | | |
|---|-----------|-----------|-----------|-----------|-----------|----------|------|-------|---|
| | | | | | | 1Q14 | 4Q14 | | |
| Revenue: | | | | | | | | | |
| Investment services fees: | | | | | | | | | |
| Asset servicing | \$985 | \$993 | \$998 | \$992 | \$1,013 | 3 | % 2 | % | |
| Clearing services | 323 | 324 | 336 | 346 | 342 | 6 | (1 |) | |
| Issuer services | 228 | 231 | 314 | 193 | 231 | 1 | 20 | | |
| Treasury services | 134 | 140 | 139 | 142 | 135 | 1 | (5 |) | |
| Total investment services fees | 1,670 | 1,688 | 1,787 | 1,673 | 1,721 | 3 | 3 | | |
| Foreign exchange and other trading revenue | 158 | 145 | 159 | 165 | 209 | 32 | 27 | | |
| Other (a) | 59 | 87 | 59 | 69 | 63 | 7 | (9 |) | |
| Total fee and other revenue (a) | 1,887 | 1,920 | 2,005 | 1,907 | 1,993 | 6 | 5 | | |
| Net interest revenue | 590 | 593 | 583 | 574 | 600 | 2 | 5 | | |
| Total revenue | 2,477 | 2,513 | 2,588 | 2,481 | 2,593 | 5 | 5 | | |
| Noninterest expense (ex. amortization of intangible assets) | 1,778 | 1,824 | 1,835 | 2,512 | 1,797 | 1 | (28 |) | |
| Income (loss) before taxes (ex. amortization of intangible assets) | 699 | 689 | 753 | (31 |) | 796 | 14 | N/M | |
| Amortization of intangible assets | 44 | 44 | 44 | 43 | 41 | (7 |) | (5 |) |
| Income (loss) before taxes | \$655 | \$645 | \$709 | \$(74 |) | \$755 | 15 | % N/M | |
| Pre-tax operating margin | 26 | % 26 | % 27 | % (3 |) | % 29 | % | | |
| Pre-tax operating margin (ex. amortization of intangible assets) | 28 | % 27 | % 29 | % (1 |) | % 31 | % | | |
| Investment services fees as a percentage of noninterest expense (b) | 93 | % 93 | % 100 | % 92 | % 96 | % | | | |
| Securities lending revenue | \$30 | \$35 | \$27 | \$28 | \$34 | 13 | % 21 | % | |
| Metrics: | | | | | | | | | |
| Average loans | \$31,468 | \$33,115 | \$33,785 | \$35,448 | \$37,699 | 20 | % 6 | % | |
| Average deposits | \$214,947 | \$220,701 | \$221,734 | \$228,282 | \$234,183 | 9 | % 3 | % | |
| AUC/A at period end (in trillions) (c) | \$27.9 | \$28.5 | \$28.3 | \$28.5 | \$28.5 | 2 | % — | % | |
| Market value of securities on loan at period end (in billions) (d) | \$264 | \$280 | \$282 | \$289 | \$291 | 10 | % 1 | % | |
| Asset servicing: | | | | | | | | | |
| Estimated new business wins (AUC/A) (in billions) | \$161 | \$130 | \$115 | \$130 | \$131 | | | | |
| Depository Receipts: | | | | | | | | | |
| Number of sponsored programs | 1,332 | 1,316 | 1,302 | 1,279 | 1,258 | (6 |) | % (2 |) |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Clearing services:

| | | | | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|----|-----|---|
| Global DARTS volume (in thousands) | 230 | 207 | 209 | 242 | 261 | 13 | % 8 | % |
| Average active clearing accounts (U.S. platform) (in thousands) | 5,695 | 5,752 | 5,805 | 5,900 | 5,979 | 5 | % 1 | % |
| Average long-term mutual fund assets (U.S. platform) | \$413,658 | \$433,047 | \$442,827 | \$450,305 | \$456,954 | 10 | % 1 | % |
| Average investor margin loans (U.S. platform) | \$8,919 | \$9,236 | \$9,861 | \$10,711 | \$11,232 | 26 | % 5 | % |

Broker-Dealer:

| | | | | | | | | |
|---|---------|---------|---------|---------|---------|---|-----|---|
| Average tri-party repo balances (in billions) | \$1,983 | \$2,022 | \$2,063 | \$2,101 | \$2,153 | 9 | % 2 | % |
|---|---------|---------|---------|---------|---------|---|-----|---|

(a) Total fee and other revenue includes investment management fees and distribution and servicing revenue.

(b) Noninterest expense excludes amortization of intangible assets and litigation expense.

(c) Includes the AUC/A of CIBC Mellon of \$1.2 trillion at March 31, 2014, June 30, 2014 and Sept. 30, 2014, and \$1.1 trillion at Dec. 31, 2014 and March 31, 2015.

(d) Represents the total amount of securities on loan managed by the Investment Services business. Excludes securities for which BNY Mellon acts as agent on behalf of CIBC Mellon clients, which totaled \$66 billion at March 31, 2014, \$64 billion at June 30, 2014, \$65 billion at Sept. 30, 2014 and Dec. 31, 2014 and \$69 billion at March 31, 2015.

N/M - Not meaningful.

Business description

Our Investment Services business provides global custody and related services, government clearing, global collateral services, corporate trust and depositary receipt and clearing services, as well as global payment/working capital solutions to global financial institutional clients.

Our comprehensive suite of financial solutions includes: global custody, global fund services, securities lending, investment manager outsourcing, performance and risk analytics, alternative investment services, securities clearance, collateral management, corporate trust, American and global depositary receipt programs, cash management solutions, payment services, liquidity services and other linked revenues, principally foreign exchange, global clearing and execution, managed account services and global prime brokerage solutions. Our clients include corporations, public funds and government agencies, foundations and endowments; global financial institutions including banks, broker-dealers, asset managers, insurance companies and central banks; financial intermediaries and independent registered investment advisors; and hedge fund managers. We help our clients service their financial assets through a network of offices and service delivery centers in 35 countries across six continents.

The results of this business are driven by a number of factors, which include: the level of transaction activity; the range of services provided, which may include custody, accounting, fund administration, daily valuations, performance measurement and risk analytics, securities lending, and investment manager back-office outsourcing; the number of accounts; and the market value of assets under custody and/or administration. Market interest rates impact both securities lending revenue and the earnings on client balances. Business expenses are driven by staff, technology investment, equipment and space required to support the services provided by the business and the cost of execution, clearance and custody of securities.

We are one of the leading global securities servicing providers with \$28.5 trillion of AUC/A at March 31, 2015. We are the largest custodian for U.S. corporate and public pension plans and we service 54% of the top 50 endowments. We are a leading custodian in the UK and service 20% of UK pensions that require a custodian. Globalization tends to drive cross-border

investment and capital flows, which increases the opportunity to provide solutions to our clients. The changing regulatory environment is also driving client demand for new solutions and services.

BNY Mellon is a leader in both global and U.S. Government securities clearance. We settle securities transactions in over 100 markets, act as a clearing agent for 18 of the 22 primary dealers and handle most of the transactions cleared through the Federal Reserve Bank of New York (by volume). As more fully described below, we are a leader in servicing tri-party repo collateral with approximately \$2.2 trillion globally. We currently service approximately \$1.4 trillion of the \$1.7 trillion tri-party repo market in the U.S.

BNY Mellon offers tri-party collateral agency services to dealers and cash investors active in the tri-party repurchase, or repo, market and currently has approximately 86% of the market share of the U.S. tri-party repo market.

BNY Mellon has reduced the amount of secured intraday credit it provides to dealers in connection with their tri-party repo trades in a number of ways, including limiting the collateral used to secure intraday credit to certain more liquid asset classes, reducing the amount of time during which we extend intraday credit, reducing the amount of credit provided in connection with processing collateral substitutions, introducing a functionality that enables us to “roll” maturing trades into new trades without extending credit, and requiring dealers to prefund their repayment obligations in connection with trades collateralized by Depository Trust Company sourced securities. This combination of measures, together with the technological enhancements put in place in 2014, have practically eliminated intraday credit related to tri-party repo processing.

Global Collateral Services serves broker-dealers and institutional investors facing expanding collateral management needs as a result of current and emerging regulatory and market requirements. Global Collateral Services brings together BNY Mellon's global capabilities in segregating, optimizing, financing and transforming collateral on behalf of clients, including its market leading broker-dealer collateral management, securities lending, collateral financing, liquidity and derivatives services teams.

BNY Mellon 20

In securities lending, we are one of the largest lenders of U.S. Treasury securities and depositary receipts and service a lending pool of approximately \$3.1 trillion in 31 markets.

We serve as depositary for 1,258 sponsored American and global depositary receipt programs at March 31, 2015, acting in partnership with leading companies from 65 countries - an estimated 60% global market share.

Pershing and its affiliates provide business solutions to approximately 1,500 financial organizations globally by delivering dependable operational support; robust trading services; flexible technology; and an expansive array of investment solutions, practice management support and service excellence.

Role of BNY Mellon, as a trustee, for mortgage-backed securitizations

BNY Mellon acts as trustee and document custodian for certain mortgage-backed security (“MBS”) securitization trusts. The role of trustee for MBS securitizations is limited; our primary role as trustee is to calculate and distribute monthly bond payments to bondholders. As a document custodian, we hold the mortgage, note, and related documents provided to us by the loan originator or seller and provide periodic reporting to these parties. BNY Mellon, either as document custodian or trustee, does not receive mortgage underwriting files (the files that contain information related to the creditworthiness of the borrower). As trustee or custodian, we have no responsibility or liability for the quality of the portfolio; we are liable only for performance of our limited duties as described above and in the trust documents. BNY Mellon is indemnified by the servicers or directly from trust assets under the governing agreements. BNY Mellon may appear as the named plaintiff in legal actions brought by servicers in foreclosure and other related proceedings because the trustee is the nominee owner of the mortgage loans within the trusts.

BNY Mellon also has been named as a defendant in legal actions brought by MBS investors alleging that the trustee has expansive duties under the governing agreements, including to investigate and pursue claims against other parties to the MBS transaction. For additional information on our legal proceedings related to this matter, see Note 17 of the Notes to Consolidated Financial Statements.

Review of financial results

AUC/A totaled \$28.5 trillion, an increase of 2% from \$27.9 trillion at March 31, 2014. The increase was primarily driven by higher market values and net new business, partially offset by the unfavorable impact of a stronger U.S. dollar. AUC/A consisted of 36% equity securities and 64% fixed income securities at both March 31, 2015 and March 31, 2014.

Revenue generated in the Investment Services business included 36% from non-U.S. sources in the first quarter of 2015 compared with 35% in the first quarter of 2014.

Investment services fees were \$1.7 billion, an increase of 3% compared with both the first quarter of 2014 and the fourth quarter of 2014 (unannualized) reflecting the following factors:

Asset servicing fees (global custody, broker-dealer services and Global Collateral Services) were \$1.0 billion compared with \$985 million in the first quarter of 2014 and \$992 million in the fourth quarter of 2014. The year-over-year increase primarily reflects net new business, largely driven by Global Collateral Services and securities lending, and market values. The sequential increase primarily reflects higher client expense reimbursements, securities lending revenue and Global Collateral Services fees. Both increases were partially offset by the unfavorable impact of a stronger U.S. dollar.

- Clearing services fees were \$342 million compared with \$323 million in the first quarter of 2014 and \$346 million in the fourth quarter of 2014. The year-over-year increase was primarily driven by higher mutual fund and asset-based fees and higher clearance revenue driven by higher DARTS volume. The sequential decrease

primarily reflects fewer trading days in the first quarter of 2015.

Issuer services fees (Corporate Trust and Depositary Receipts) were \$231 million compared with \$228 million in the first quarter of 2014 and \$193 million in the fourth quarter of 2014. Both increases reflect higher corporate actions in Depositary Receipts, partially offset by the unfavorable impact of a stronger U.S. dollar. The sequential increase also reflects higher Corporate Trust fees.

Treasury services fees were \$135 million compared with \$134 million in the first quarter of

2014 and \$142 million in the fourth quarter of 2014. The sequential decrease primarily reflects seasonally lower payment volumes.

Foreign exchange and other trading revenue totaled \$209 million compared with \$158 million in the first quarter of 2014 and \$165 million in the fourth quarter of 2014. Both increases primarily reflect higher volume and volatility, as well as higher Depository Receipts-related activity.

Net interest revenue was \$600 million compared with \$590 million in the first quarter of 2014 and \$574 million in the fourth quarter of 2014. Both increases primarily reflect higher average loans and deposits. The sequential increase also reflects higher internal crediting rates for deposits.

Noninterest expense, excluding amortization of intangible assets, was \$1.80 billion compared with \$1.78 billion in the first quarter of 2014 and \$2.51 billion in the fourth quarter of 2014. Both comparisons reflect higher incentive expense and the impact of the new EU Single Resolution Fund, partially offset by lower compensation expense and the favorable impact of a stronger U.S. dollar. The sequential decrease primarily reflects lower litigation and professional, legal and other purchased services expenses.

Other segment

| (dollars in millions) | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 | |
|--|----------|---------|----------|----------|---------|---|
| Revenue: | | | | | | |
| Fee and other revenue | \$112 | \$119 | \$928 | \$117 | \$104 | |
| Net interest revenue | 68 | 60 | 69 | 69 | 54 | |
| Total revenue | 180 | 179 | 997 | 186 | 158 | |
| Provision for credit losses | (18 |)(12 |)(19 |)1 | 2 | |
| Noninterest expense (ex. M&I and restructuring charges) | 193 | 93 | 274 | 210 | 120 | |
| Income (loss) before taxes (ex. M&I and restructuring charges) | 5 | 98 | 742 | (25 |)36 | |
| M&I and restructuring charges (recoveries) | — | 120 | 57 | — | (4 |) |
| Income (loss) before taxes | \$5 | \$(22 |)\$685 | \$(25 |)\$40 | |
| Average loans and leases | \$10,104 | \$9,962 | \$10,278 | \$10,272 | \$8,602 | |

See page 31 of our 2014 Annual Report for a description of the Other segment.

Review of financial results

Total fee and other revenue decreased \$8 million compared with the first quarter of 2014 and \$13 million compared with the fourth quarter of 2014. The year-over-year decrease primarily reflects lower leasing gains. The sequential decrease primarily reflects lower asset-related gains and net securities gains. Both decreases were partially offset by higher other trading revenue.

Net interest revenue decreased \$14 million compared with the first quarter of 2014 and \$15 million compared with the fourth quarter of 2014. Both decreases reflect higher internal crediting rates to the businesses for deposits.

The provision for credit losses was \$2 million primarily driven by growth in our total exposure.

Noninterest expense excluding M&I and restructuring charges decreased \$73 million compared with the first quarter of 2014 and \$90 million compared with the fourth quarter of 2014. The year-over-year decrease primarily reflects the curtailment gain related to the U.S. pension plan, partially offset by higher incentives reflecting better performance, a lower adjustment for the finalization of the annual incentive awards and the impact of vesting of long-term stock awards for retirement eligible employees. The sequential decrease was driven by lower litigation expense and lower pension expense.

BNY Mellon 22

Critical accounting estimates

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in our 2014 Annual Report. Our critical accounting estimates are those related to the allowance for loan losses and allowance for lending-related commitments, fair value of financial instruments and derivatives, other-than-temporary impairment (“OTTI”), goodwill and other intangibles, and pension accounting, as referenced below.

| Critical policy | Reference |
|---|--------------------------------------|
| Allowance for loan losses and allowance for lending-related commitments | 2014 Annual Report, pages 36 - 38. |
| Fair value of financial instruments and derivatives | 2014 Annual Report, pages 38 - 40. |
| OTTI | 2014 Annual Report, pages 40 and 41. |
| Goodwill and other intangibles | 2014 Annual Report, pages 41 and 42. |
| Pension accounting | 2014 Annual Report, pages 42 and 43. |

Consolidated balance sheet review

At March 31, 2015, total assets were \$399 billion compared with \$385 billion at Dec. 31, 2014. The increase in total assets was primarily driven by the level of client deposits. Deposits totaled \$281 billion at March 31, 2015 and \$266 billion at Dec. 31, 2014. At March 31, 2015 and Dec. 31, 2014, total interest-bearing deposits were 51% of total interest-earning assets.

Total assets averaged \$375 billion in the first quarter of 2015 compared with \$355 billion in the first quarter of 2014 and \$385 billion in the fourth quarter of 2014. The increase in average total assets compared with the first quarter of 2014 was primarily driven by the level of client deposits. Total deposits averaged \$249 billion in the first quarter of 2015 compared with \$234 billion in the first quarter of 2014. The decrease in average total assets compared with the fourth quarter of 2014 primarily reflects lower levels of federal funds purchased and securities sold under repurchase agreements and commercial paper.

At March 31, 2015, we had \$47 billion of liquid funds (which include interest-bearing deposits with banks and federal funds sold and securities purchased under resale agreements) and \$97 billion of cash (including \$90 billion of overnight deposits with the Federal Reserve and other central banks) for a total of \$144 billion of available funds. This compares with available funds of \$143 billion at Dec. 31, 2014. The increase in available funds primarily reflects an increase in federal funds sold and securities purchased under resale agreements. Total available funds as a percentage of total assets was 36% at March 31, 2015 compared with 37% at Dec. 31, 2014. Of the \$47 billion in liquid funds held at March 31, 2015, \$19 billion was placed in interest-bearing deposits with large, highly-rated global financial institutions with a weighted-average life to maturity of approximately 29 days. Of the \$19 billion, \$4 billion was placed with banks in the Eurozone.

Investment securities were \$129 billion, or 32% of total assets, at March 31, 2015, compared with \$119 billion, or 31% of total assets, at Dec. 31, 2014. The increase primarily reflects additional investments in Agency RMBS and U.S. Treasury securities in our held-to-maturity portfolio.

Loans were \$62 billion, or 16% of total assets, at March 31, 2015, compared with \$59 billion, or 15% of total assets, at Dec. 31, 2014. The increase in loans primarily reflects higher financial institution loans, overdrafts and commercial real estate loans.

Long-term debt totaled \$20.4 billion at March 31, 2015 and \$20.3 billion at Dec. 31, 2014. In the first quarter of 2015, the Parent issued \$2.0 billion of senior debt and \$2.0 billion of long-term debt matured.

Total The Bank of New York Mellon Corporation shareholders' equity decreased to \$37.3 billion from \$37.4 billion at Dec. 31, 2014. The decrease primarily reflects foreign currency translation adjustments and share repurchases, partially offset by earnings retention and approximately \$290 million resulting from stock awards, the exercise of stock options and stock issued for employee benefit plans.

23 BNY Mellon

Exposure in Ireland, Italy, Spain, Portugal, Greece, Russia and Ukraine

We have provided expanded disclosure on countries that have experienced particular market focus on credit quality and are countries experiencing economic concerns. Where appropriate, we are offsetting the risk associated with the gross exposure in these countries with collateral that has been pledged, which primarily consists of cash or marketable securities, or by transferring the risk to a third-party guarantor in another country. See “Risk management” in our 2014 Annual Report for additional information on how our exposures are managed.

BNY Mellon has a limited economic interest in the performance of assets of consolidated investment management funds, and therefore they are excluded from this disclosure. The liabilities of consolidated investment management funds represent the interest of the noteholders of the funds and are solely dependent on the value of the assets of the funds. Any loss in the value of assets of consolidated investment management funds would be incurred by the fund’s noteholders.

Our exposure in Ireland is principally related to Irish-domiciled investment funds. Servicing provided to these funds and fund families may result in overdraft exposure.

Events in Russia and Ukraine significantly increased geopolitical tensions in Central and Eastern Europe. Recent declines in oil prices could also negatively impact companies located in that region. In addition to the exposures in the following table, we provide investments services, including acting as a depository receipt bank, for companies in Russia, and investment management services primarily through our noncontrolling interest in an asset manager. To date, our businesses with Russian exposure have not been materially impacted by the ongoing tensions, sanctions or impact of the decline in oil prices. Future developments including additional sanctions against Russian entities or a prolonged decrease in oil prices could adversely impact these businesses and our results of operations.

At March 31, 2015 and Dec. 31, 2014, BNY Mellon had exposure of less than \$1 million in Portugal, Greece and Ukraine.

The following tables present our on- and off-balance sheet exposure in Ireland, Italy, Spain and Russia at both March 31, 2015 and Dec. 31, 2014. Exposure in the tables below reflects the country of operations and risk of the immediate counterparty.

On- and off-balance sheet exposure at March 31, 2015

| (in millions) | Ireland | Italy | Spain | Russia | Total |
|---|----------|----------|----------|--------|----------|
| On-balance sheet exposure | | | | | |
| Gross: | | | | | |
| Deposits with banks (primarily interest-bearing) (a) | \$ 131 | \$ 333 | \$ 415 | \$ 17 | \$ 896 |
| Investment securities (primarily sovereign debt and European Floating Rate Notes) (b) | 933 | 1,279 | 1,829 | — | 4,041 |
| Loans and leases (c) | 446 | 3 | 15 | 134 | 598 |
| Trading assets (d) | 237 | 2 | 9 | — | 248 |
| Total gross on-balance sheet exposure | 1,747 | 1,617 | 2,268 | 151 | 5,783 |
| Less: | | | | | |
| Collateral | 105 | 2 | 9 | — | 116 |
| Guarantees | — | 2 | 1 | — | 3 |
| Total collateral and guarantees | 105 | 4 | 10 | — | 119 |
| Total net on-balance sheet exposure | \$ 1,642 | \$ 1,613 | \$ 2,258 | \$ 151 | \$ 5,664 |
| Off-balance sheet exposure | | | | | |
| Gross: | | | | | |
| Lending-related commitments (e) | \$ 80 | \$ — | \$ — | \$ — | \$ 80 |
| Letters of credit (f) | 59 | 3 | 13 | — | 75 |
| Total gross off-balance sheet exposure | 139 | 3 | 13 | — | 155 |
| Less: | | | | | |
| Collateral | 70 | — | 13 | — | 83 |
| Total net off-balance sheet exposure | \$ 69 | \$ 3 | \$ — | \$ — | \$ 72 |
| Total exposure: | | | | | |
| Total gross on- and off-balance sheet exposure | \$ 1,886 | \$ 1,620 | \$ 2,281 | \$ 151 | \$ 5,938 |
| Less: Total collateral and guarantees | 175 | 4 | 23 | — | 202 |
| Total net on- and off-balance sheet exposure | \$ 1,711 | \$ 1,616 | \$ 2,258 | \$ 151 | \$ 5,736 |

(a) Interest-bearing deposits with banks represent a \$61 million placement with an Irish financial institution, \$228 million placements with financial institutions in Italy, \$408 million placements with financial institutions in Spain and \$199 million of nostro accounts related to our depositary receipts, custody and treasury services activities located in Ireland, Italy, Spain and Russia.

(b) Investment securities represent \$131 million, fair value, of residential mortgage-backed securities located in Ireland and Italy, \$3.9 billion, fair value, of sovereign debt located in Ireland, Italy and Spain and \$39 million, fair value, of investment grade corporate bonds located in Ireland, Italy and Spain. The investment securities were 97% investment grade.

(c) Loans and leases primarily include \$385 million of overdrafts in Ireland and Spain resulting from our custody business, a \$75 million commercial lease to a company located in Ireland, which was fully collateralized by U.S. Treasuries and \$134 million of trade finance and syndicated loans primarily to large, state-owned financial institutions in Russia. There is no impairment associated with these loans and leases. Overdrafts occur on a daily basis in our Investment Services businesses and are generally repaid within two business days.

(d) Trading assets represent the receivable related to over-the-counter (“OTC”) foreign exchange and interest rate derivatives, net of master netting agreements. Trading assets include \$237 million of receivables primarily due from Irish-domiciled investment funds and \$11 million of receivables primarily due from financial institutions in Italy and Spain. Trading assets in Ireland and Spain were collateralized by \$39 million of cash and U.S. Treasuries. Additionally, cash collateral on trading assets represents \$2 million in Italy.

(e) Lending-related commitments include \$80 million to an insurance company in Ireland, collateralized by \$15 million of marketable securities.

(f) Letters of credit primarily represent \$55 million extended to an insurance company in Ireland, collateralized by \$52 million of marketable securities and \$13 million extended to an insurance company in Spain, fully collateralized by marketable securities. Risk participations with higher risk countries counterparties are excluded.

25 BNY Mellon

On- and off-balance sheet exposure at Dec. 31, 2014

| (in millions) | Ireland | Italy | Spain | Russia | Total |
|---|----------|----------|----------|--------|----------|
| On-balance sheet exposure | | | | | |
| Gross: | | | | | |
| Deposits with banks (primarily interest-bearing) (a) | \$ 147 | \$ 186 | \$ 195 | \$ 44 | \$ 572 |
| Investment securities (primarily sovereign debt and European Floating Rate Notes) (b) | 818 | 1,458 | 1,992 | — | 4,268 |
| Loans and leases (c) | 198 | 3 | 1 | 199 | 401 |
| Trading assets (d) | 239 | 7 | 12 | — | 258 |
| Total gross on-balance sheet exposure | 1,402 | 1,654 | 2,200 | 243 | 5,499 |
| Less: | | | | | |
| Collateral | 109 | 7 | 11 | — | 127 |
| Guarantees | — | 2 | 1 | — | 3 |
| Total collateral and guarantees | 109 | 9 | 12 | — | 130 |
| Total net on-balance sheet exposure | \$ 1,293 | \$ 1,645 | \$ 2,188 | \$ 243 | \$ 5,369 |
| Off-balance sheet exposure | | | | | |
| Gross: | | | | | |
| Lending-related commitments (e) | \$ 91 | \$ — | \$ — | \$ — | \$ 91 |
| Letters of credit (f) | 61 | 3 | 14 | — | 78 |
| Total gross off-balance sheet exposure | 152 | 3 | 14 | — | 169 |
| Less: | | | | | |
| Collateral | 82 | — | 14 | — | 96 |
| Total net off-balance sheet exposure | \$ 70 | \$ 3 | \$ — | \$ — | \$ 73 |
| Total exposure: | | | | | |
| Total gross on- and off-balance sheet exposure | \$ 1,554 | \$ 1,657 | \$ 2,214 | \$ 243 | \$ 5,668 |
| Less: Total collateral and guarantees | 191 | 9 | 26 | — | 226 |
| Total net on- and off-balance sheet exposure | \$ 1,363 | \$ 1,648 | \$ 2,188 | \$ 243 | \$ 5,442 |

Interest-bearing deposits with banks represent a \$94 million placement with an Irish subsidiary of a UK holding company, a \$37 million placement with an Irish financial institution, a \$100 million placement with a financial (a) institution in Italy, a \$195 million placement with a financial institution in Spain, \$146 million of nostro accounts related to our depositary receipts, custody and treasury services activities located in Ireland, Italy, Spain and Russia.

Investment securities represent \$146 million, fair value, of residential mortgage-backed securities located in (b) Ireland and Italy, \$4.1 billion, fair value, of sovereign debt located in Ireland, Italy and Spain and \$45 million, fair value, of investment grade corporate bonds located in Ireland, Italy and Spain. The investment securities were 97% investment grade.

Loans and leases primarily include \$124 million of overdrafts primarily to Irish-domiciled investment funds resulting from our custody business, a \$74 million commercial lease to a company located in Ireland, which was (c) fully collateralized by U.S. Treasuries and \$199 million of trade finance and syndicated loans primarily to large, state-owned financial institutions in Russia. There is no impairment associated with these loans and leases. Overdrafts occur on a daily basis in our Investment Services businesses and are generally repaid within two business days.

Trading assets represent the receivable related to OTC foreign exchange and interest rate derivatives, net of master netting agreements. Trading assets include \$239 million of receivables primarily due from Irish-domiciled (d) investment funds and \$19 million of receivables primarily due from financial institutions in Italy and Spain.

Trading assets in Ireland and Spain were collateralized by \$46 million of cash and U.S. Treasuries. Additionally, cash collateral on trading assets represents \$7 million in Italy.

Lending-related commitments include \$79 million to an insurance company in Ireland, collateralized by \$14 (e) million of marketable securities, and \$12 million to an investment company in Ireland, secured by a lien on the client's collateral portfolio.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Letters of credit primarily represent \$56 million extended to an insurance company in Ireland, collateralized by \$54 (f) million of marketable securities and \$13 million extended to an insurance company in Spain, fully collateralized by marketable securities. Risk participations with higher risk countries counterparties are excluded.

BNY Mellon 26

Investment securities

In the discussion of our investment securities portfolio, we have included certain credit ratings information because the information indicates the degree of credit risk to which we are exposed, and significant changes in ratings classifications for our

investment securities portfolio could indicate increased credit risk for us and could be accompanied by a reduction in the fair value of our investment securities portfolio.

The following table presents the distribution of our total investment securities portfolio:

| Investment securities portfolio (dollars in millions) | Dec. 31, 2014 | 1Q15 change in | March 31, 2015 | | Fair value as a % of amortized cost (a) | Unrealized gain (loss) | Ratings | | | | | |
|--|---------------|------------------------|----------------|------------|---|------------------------|----------|-------|----------------|------|------|-----------|
| | Fair value | unrealized gain (loss) | Amortized cost | Fair value | | | AAA/AA- | A+/A- | BBB+ and lower | BBB- | BBB- | Not rated |
| Agency RMBS | \$46,762 | \$278 | \$50,635 | \$51,101 | 101 | %\$466 | 100 | %— | %— | %— | %— | %— |
| U.S. Treasury Sovereign debt/sovereign guaranteed (b) | 24,857 | 48 | 28,414 | 28,680 | 101 | 266 | 100 | — | — | — | — | — |
| Non-agency RMBS (c) | 18,253 | 32 | 18,277 | 18,469 | 101 | 192 | 78 | 1 | 21 | — | — | — |
| Non-agency RMBS (c) | 2,214 | (28) | 1,699 | 2,138 | 81 | 439 | — | 1 | 1 | 91 | 7 | — |
| Non-agency RMBS | 1,113 | — | 1,052 | 1,070 | 94 | 18 | 1 | 8 | 21 | 69 | 1 | — |
| European floating rate notes (d) | 1,959 | 3 | 1,728 | 1,723 | 99 | (5) | 71 | 22 | — | 7 | — | — |
| Commercial MBS | 4,997 | 32 | 5,830 | 5,901 | 101 | 71 | 94 | 5 | 1 | — | — | — |
| State and political subdivisions | 5,271 | 14 | 5,074 | 5,159 | 102 | 85 | 79 | 20 | — | — | 1 | — |
| Foreign covered bonds (e) | 2,866 | (6) | 2,732 | 2,804 | 103 | 72 | 100 | — | — | — | — | — |
| Corporate bonds | 1,785 | 12 | 1,695 | 1,745 | 103 | 50 | 21 | 67 | 12 | — | — | — |
| CLO | 2,111 | 6 | 2,250 | 2,258 | 100 | 8 | 100 | — | — | — | — | — |
| U.S. Government agencies | 684 | 5 | 1,551 | 1,554 | 100 | 3 | 100 | — | — | — | — | — |
| Consumer ABS | 3,240 | 3 | 3,398 | 3,400 | 100 | 2 | 99 | 1 | — | — | — | — |
| Other (f) | 3,032 | 3 | 2,879 | 2,890 | 100 | 11 | 40 | — | 54 | — | 6 | — |
| Total investment securities | \$119,144 | (g)\$402 | \$127,214 | \$128,892 | (g)101 | %\$1,678 | (g)(h)91 | %2 | %5 | %2 | %— | %— |

(a) Amortized cost before impairments.

(b) Primarily consists of exposure to UK, France, Germany, Spain, Italy and Netherlands.

These RMBS were included in the former Grantor Trust and were marked-to-market in 2009. We believe these (c) RMBS would receive higher credit ratings if these ratings incorporated, as additional credit enhancements, the difference between the written-down amortized cost and the current face amount of each of these securities.

(d) Includes RMBS, commercial MBS and other securities. Primarily consists of exposure to UK and Netherlands.

(e) Primarily consists of exposure to Canada, UK and Netherlands.

(f)

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Includes commercial paper with a fair value of \$1.6 billion and \$1.6 billion and money market funds with a fair value of \$763 million and \$814 million at Dec. 31, 2014 and March 31, 2015, respectively.

(g) Includes net unrealized losses on derivatives hedging securities available-for-sale of \$313 million at Dec. 31, 2014 and \$501 million at March 31, 2015.

(h) Unrealized gains of \$1,239 million at March 31, 2015 related to available-for-sale securities.

The fair value of our investment securities portfolio was \$128.9 billion compared with \$119.1 billion at Dec. 31, 2014. The increase primarily reflects additional investments in Agency RMBS and U.S. Treasury securities in our held-to-maturity portfolio.

At March 31, 2015, the total investment securities portfolio had a net unrealized pre-tax gain of \$1.7 billion compared with \$1.3 billion at Dec. 31, 2014, including the impact of related hedges. The increase in the net unrealized pre-tax gain was primarily driven by a decline in market interest rates. The unrealized gain net of tax on our investment securities available-for-sale portfolio included in accumulated

other comprehensive income was \$774 million compared with \$675 million at Dec. 31, 2014.

At March 31, 2015, 91% of the securities in our portfolio were rated AAA/AA- compared with 90% of the securities rated AAA/AA- at Dec. 31, 2014.

We routinely test our investment securities for OTTI. (See "Critical accounting estimates" for additional information regarding OTTI.)

The following table presents the amortizable purchase premium (net of discount) related to the investment securities portfolio and accretable discount related to the 2009 restructuring of the investment securities portfolio.

Net premium amortization and discount accretion of investment securities

| | | | | | |
|--|---------|---------|---------|---------|---------|
| (a) | | | | | |
| (dollars in millions) | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 |
| Amortizable purchase premium (net of discount) relating to investment securities: | | | | | |
| Balance at period end | \$2,236 | \$2,225 | \$2,317 | \$2,432 | \$2,559 |
| Estimated average life remaining at period end (in years) | 5.0 | 4.8 | 4.6 | 4.8 | 4.5 |
| Amortization | \$145 | \$156 | \$159 | \$166 | \$173 |
| Accretable discount related to the prior restructuring of the investment securities portfolio: | | | | | |
| Balance at period end | \$534 | \$510 | \$465 | \$413 | \$386 |
| Estimated average life remaining at period end (in years) | 6.3 | 6.2 | 6.6 | 5.9 | 6.0 |
| Accretion | \$46 | \$41 | \$40 | \$36 | \$32 |

(a) Amortization of purchase premium decreases net interest revenue while accretion of discount increases net interest revenue. Both were recorded on a level yield basis.

The following table presents pre-tax net securities gains (losses) by type.

| | | | | |
|-------------------------------|------|------|------|---|
| Net securities gains (losses) | | | | |
| (in millions) | 1Q15 | 4Q14 | 1Q14 | |
| U.S. Treasury | \$23 | \$13 | \$10 | |
| Non-agency RMBS | (1 |)17 | (2 |) |
| Other | 2 | 1 | 14 | |
| Total net securities gains | \$24 | \$31 | \$22 | |

On a quarterly basis, we perform our impairment analysis using several factors, including projected loss severities and default rates. In the first quarter of 2015, this analysis resulted in \$1.3 million of credit losses primarily on our non-agency RMBS portfolio. At March 31, 2015, if we were to increase or decrease each of our projected loss severities and default rates by 100 basis points on each of the positions in our non-agency RMBS portfolios, including the securities previously held by the Grantor Trust, credit-related impairment charges on these securities would have increased by less than \$1 million (pre-tax). See Note 3 of the Notes to Consolidated Financial Statements for the projected weighted-average default rates and loss severities.

The following table shows the fair value of the European floating rate notes by geographical location at March 31, 2015. The unrealized loss on these securities was \$5 million at March 31, 2015, compared with \$8 million at Dec. 31, 2014.

European floating rate notes at March 31, 2015 (a)

| | | | |
|----------------|---------|-------|------------------|
| (in millions) | RMBS | Other | Total fair value |
| United Kingdom | \$1,045 | \$78 | \$1,123 |
| Netherlands | 448 | — | 448 |
| Ireland | 129 | — | 129 |
| Other | 23 | — | 23 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | |
|------------------|---------|------|---------|
| Total fair value | \$1,645 | \$78 | \$1,723 |
|------------------|---------|------|---------|

(a) 71% of these securities are in the AAA to AA- ratings category.

See Note 14 of the Notes to Consolidated Financial Statements for details of securities by level in the fair value hierarchy.

BNY Mellon 28

Loans

| Total exposure – consolidated (in billions) | March 31, 2015 | | | Dec. 31, 2014 | | |
|--|----------------|----------------------|----------------|---------------|----------------------|----------------|
| | Loans | Unfunded commitments | Total exposure | Loans | Unfunded commitments | Total exposure |
| Non-margin loans: | | | | | | |
| Financial institutions | \$14.7 | \$16.0 | \$30.7 | \$13.3 | \$15.5 | \$28.8 |
| Commercial | 2.0 | 18.7 | 20.7 | 1.7 | 18.7 | 20.4 |
| Subtotal institutional | 16.7 | 34.7 | 51.4 | 15.0 | 34.2 | 49.2 |
| Wealth management loans and mortgages | 11.6 | 1.7 | 13.3 | 11.2 | 1.7 | 12.9 |
| Commercial real estate | 3.0 | 3.0 | 6.0 | 2.5 | 2.7 | 5.2 |
| Lease financings | 2.1 | — | 2.1 | 2.2 | — | 2.2 |
| Other residential mortgages | 1.2 | — | 1.2 | 1.2 | — | 1.2 |
| Overdrafts | 7.0 | — | 7.0 | 5.9 | — | 5.9 |
| Other | 1.1 | — | 1.1 | 1.1 | — | 1.1 |
| Subtotal non-margin loans | 42.7 | 39.4 | 82.1 | 39.1 | 38.6 | 77.7 |
| Margin loans | 19.6 | 0.7 | 20.3 | 20.0 | 0.7 | 20.7 |
| Total | \$62.3 | \$40.1 | \$102.4 | \$59.1 | \$39.3 | \$98.4 |

Total exposures were \$102.4 billion, an increase of 4% from \$98.4 billion at Dec. 31, 2014. The increase in total exposure primarily reflects an increase in exposure to financial institutions, overdrafts and the commercial real estate portfolio.

Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios comprised 50% of our total lending exposure at both March 31, 2015 and Dec. 31, 2014. Additionally, a substantial portion of our overdrafts relate to financial institutions.

Financial institutions

The diversity of the financial institutions portfolio is shown in the following table.

| Financial institutions portfolio exposure (dollar amounts in billions) | March 31, 2015 | | | | | Dec. 31, 2014 | | |
|---|----------------|----------------------|----------------|--------------|-------------|---------------|----------------------|----------------|
| | Loans | Unfunded commitments | Total exposure | % Inv. grade | % due <1 yr | Loans | Unfunded commitments | Total exposure |
| Banks | \$9.1 | \$1.7 | \$10.8 | 85 | % 95 | % \$7.6 | \$1.7 | \$9.3 |
| Asset managers | 1.7 | 5.1 | 6.8 | 99 | 79 | 2.0 | 4.8 | 6.8 |
| Securities industry | 3.3 | 1.1 | 4.4 | 89 | 94 | 3.1 | 1.1 | 4.2 |
| Insurance | 0.1 | 3.9 | 4.0 | 99 | 21 | 0.1 | 4.0 | 4.1 |
| Government | 0.1 | 3.0 | 3.1 | 93 | 55 | 0.1 | 2.9 | 3.0 |
| Other | 0.4 | 1.2 | 1.6 | 97 | 45 | 0.4 | 1.0 | 1.4 |
| Total | \$14.7 | \$16.0 | \$30.7 | 92 | % 75 | % \$13.3 | \$15.5 | \$28.8 |

The financial institutions portfolio exposure was \$30.7 billion at March 31, 2015 compared with \$28.8 billion at Dec. 31, 2014. The increase primarily reflects an increase in exposure to banks primarily driven by a higher level of trade finance loans.

Financial institution exposures are high-quality, with 92% of the exposures meeting the investment grade equivalent criteria of our internal credit rating classification at March 31, 2015. Each customer is assigned an internal credit rating, which is mapped to an equivalent external rating agency grade based upon a number of dimensions which are continually

evaluated and may change over time. The exposure to financial institutions is generally short-term. Of these exposures, 75% expire within one year, and 37% expire within 90 days. In addition, 39% of the financial institutions exposure is secured. For example, securities industry and asset managers often borrow against marketable securities held in custody.

For ratings of non-U.S. counterparties, as a conservative measure, our internal credit rating is generally capped at a rating equivalent to the sovereign rating of the country where the counterparty resides regardless of the internal credit

rating assigned to the counterparty or the underlying collateral.

Our bank exposure primarily relates to our global trade finance and U.S. dollar-clearing businesses. These exposures are predominately to investment grade counterparties and are short term in nature.

The asset manager portfolio exposures are high-quality with 99% of the exposures meeting our investment grade equivalent ratings criteria as of March 31, 2015. These exposures are generally short-term liquidity facilities, with the vast majority to regulated mutual funds.

Commercial

The diversity of the commercial portfolio is presented in the following table.

| Commercial portfolio exposure (dollar amounts in billions) | March 31, 2015 | | | | | Dec. 31, 2014 | | | |
|---|----------------|----------------------|----------------|--------------|-------------|---------------|----------------------|----------------|--|
| | Loans | Unfunded commitments | Total exposure | % Inv. grade | % due <1 yr | Loans | Unfunded commitments | Total exposure | |
| Services and other | \$0.8 | \$ 6.0 | \$ 6.8 | 95 | % 20 | % \$0.8 | \$ 5.9 | \$ 6.7 | |
| Manufacturing | 0.4 | 5.7 | 6.1 | 92 | 13 | 0.3 | 5.7 | 6.0 | |
| Energy and utilities | 0.5 | 5.5 | 6.0 | 97 | 7 | 0.5 | 5.6 | 6.1 | |
| Media and telecom | 0.3 | 1.5 | 1.8 | 93 | 5 | 0.1 | 1.5 | 1.6 | |
| Total | \$2.0 | \$ 18.7 | \$ 20.7 | 94 | % 13 | % \$1.7 | \$ 18.7 | \$ 20.4 | |

The commercial portfolio exposure increased 1% to \$20.7 billion at March 31, 2015, from \$20.4 billion at Dec. 31, 2014, primarily reflecting an increase in the media portfolio. Utilities-related exposure represents approximately three-quarters of the energy and utilities portfolio.

The table below summarizes the percentage of the financial institutions and commercial portfolio exposures that are investment grade.

Percentage of the portfolios that are investment grade

| | March 31, 2014 | June 30, 2014 | Sept. 30, 2014 | Dec. 31, 2014 | March 31, 2015 |
|------------------------|----------------|---------------|----------------|---------------|----------------|
| Financial institutions | 94 | %93 | %93 | %93 | %92 |
| Commercial | 94 | %94 | %94 | %94 | %94 |

Our credit strategy is to focus on investment grade names to support cross-selling opportunities and avoid single name/industry concentrations and our goal is to maintain a predominantly investment grade loan portfolio. The execution of our strategy has resulted in 92% of our financial institutions portfolio and 94% of our commercial portfolio rated as investment grade at March 31, 2015.

Wealth management loans and mortgages

Our wealth management exposure was \$13.3 billion at March 31, 2015 compared with \$12.9 billion at

Dec. 31, 2014. Wealth management loans and mortgages primarily consist of loans to high-net-worth individuals, which are secured by marketable securities and/or residential property. Wealth management mortgages are primarily

interest-only adjustable rate mortgages with a weighted-average loan-to-value ratio of 60% at origination. In the wealth management portfolio, less than 1% of the mortgages were past due at March 31, 2015.

At March 31, 2015, the wealth management mortgage portfolio consisted of the following geographic concentrations: California - 21%; New York - 20%; Massachusetts - 15%; Florida - 8%; and other - 36%.

Commercial real estate

Our income producing commercial real estate facilities are focused on experienced owners and are structured with moderate leverage based on existing cash flows. Our commercial real estate lending activities also include construction and renovation facilities. Our client base consists of experienced developers and long-term holders of real estate assets. Loans are approved on the basis of existing or projected cash flows, and supported by appraisals and knowledge of local market conditions. Development loans are structured with moderate leverage, and in many instances, involve some level of recourse to the developer. Our commercial real estate exposure totaled \$6.0 billion at March 31, 2015 compared with \$5.2 billion at Dec. 31, 2014.

BNY Mellon 30

At March 31, 2015, 59% of our commercial real estate portfolio was secured. The secured portfolio is diverse by project type, with 55% secured by residential buildings, 27% secured by office buildings, 10% secured by retail properties, and 8% secured by other categories. Approximately 98% of the unsecured portfolio consists of real estate investment trusts ("REITs"), which are predominantly investment grade, and real estate operating companies.

At March 31, 2015, our commercial real estate portfolio consists of the following concentrations: REITs and real estate operating companies - 45%; New York metro - 38%; and other - 17%.

Lease financings

The leasing portfolio exposure totaled \$2.1 billion and included \$136 million of airline exposures at March 31, 2015, compared with \$2.2 billion of leasing exposures, including \$146 million of airline exposures, at Dec. 31, 2014. At March 31, 2015, approximately 87% of the leasing exposure was investment grade.

At March 31, 2015, the \$2.0 billion non-airline lease financing portfolio consisted of exposures backed by well-diversified assets, primarily large-ticket transportation equipment.

At March 31, 2015, our \$136 million of exposure to the airline industry consisted of \$57 million to major U.S. carriers, \$70 million to foreign airlines and \$9 million to U.S. regional airlines.

Our airline lease customers experienced a recent recovery in the industry. However, a significant portion of these customers remain highly leveraged and vulnerable to economic downturns. We continue to closely monitor this portfolio.

We utilize the lease financing portfolio as part of our tax management strategy.

Other residential mortgages

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans and totaled \$1.2 billion at both March 31, 2015 and Dec. 31, 2014. Included in this portfolio at March 31, 2015 are \$337 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are

predominantly prime mortgage loans, with a small portion of Alt-A loans. As of March 31, 2015, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 76% at origination and 18% of the serviced loan balance was at least 60 days delinquent. The properties securing the prime and Alt-A mortgage loans were located (in order of concentration) in California, Florida, Virginia, the tri-state area (New York, New Jersey and Connecticut) and Maryland.

To determine the projected loss on the prime and Alt-A mortgage portfolios, we calculate the total estimated defaults of these mortgages and multiply that amount by an estimate of realizable value upon sale in the marketplace (severity).

Overdrafts

Overdrafts primarily relate to custody and securities clearance clients. Overdrafts occur on a daily basis in the custody and securities clearance business and are generally repaid within two business days.

Other loans

Other loans primarily includes loans to consumers that are fully collateralized with equities, mutual funds and fixed income securities.

Margin loans

Margin loans are collateralized with marketable securities and borrowers are required to maintain a daily collateral margin in excess of 100% of the value of the loan. Margin loans included \$8.4 billion of loans at March 31, 2015 and \$8.7 billion at Dec. 31, 2014 related to a term loan program that offers fully collateralized loans to broker-dealers.

Tri-party repo committed credit facilities

In April 2015, we fully converted the secured intraday credit provided to dealers in connection with their tri-party repo trades from uncommitted credit to committed credit. The committed credit requires dealers to fully secure the outstanding intraday credit with high-quality liquid assets having a market value in excess of the amount of the outstanding credit.

Asset quality and allowance for credit losses

Over the past several years, we have improved our risk profile through greater focus on clients who are active users of our non-credit services, de-emphasizing broad-based loan growth. Our primary exposure to the credit risk of a customer consists of funded loans, unfunded formal contractual commitments to lend, standby letters of credit and overdrafts associated with our custody and securities clearance businesses.

The role of credit has shifted to one that complements our other services instead of as a lead product. We believe credit solidifies customer relationships and, through a disciplined allocation of capital, can earn acceptable rates of return as part of an overall relationship.

The following table details changes in our allowance for credit losses.

Allowance for credit losses activity

| (dollar amounts in millions) | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
|---|-------------------|---------------|----------------|
| Margin loans | \$19,566 | \$20,034 | \$16,430 |
| Non-margin loans | 42,620 | 39,077 | 37,606 |
| Total loans | \$62,186 | \$59,111 | \$54,036 |
| Beginning balance of allowance for credit losses | \$280 | \$288 | \$344 |
| Provision for credit losses | 2 | 1 | (18) |
| Net (charge-offs) recoveries: | | | |
| Other residential mortgages | 1 | — | — |
| Financial institutions | — | 1 | — |
| Commercial real estate | — | (2) | — |
| Commercial | — | (8) | — |
| Net (charge-offs) recoveries | \$1 | \$(9) | — |
| Ending balance of allowance for credit losses | \$283 | \$280 | \$326 |
| Allowance for loan losses | \$190 | \$191 | \$198 |
| Allowance for lending-related commitments | 93 | 89 | 128 |
| Allowance for loan losses as a percentage of total loans | 0.31 | 0.32 | 0.37 |
| Allowance for loan losses as a percentage of non-margin loans | 0.45 | 0.49 | 0.53 |
| Total allowance for credit losses as a percentage of total loans | 0.46 | 0.47 | 0.60 |
| Total allowance for credit losses as a percentage of non-margin loans | 0.66 | 0.72 | 0.87 |

Net recoveries were \$1 million in the first quarter of 2015 and reflected in the Other residential mortgages portfolio. Net charge-offs were \$9 million in the

fourth quarter of 2014 and included \$8 million of commercial loans. There were no net (charge-offs) recoveries in the first quarter of 2014.

The provision for credit losses was \$2 million in the first quarter of 2015, \$1 million in the fourth quarter of 2014 and a credit of \$18 million in the first quarter of 2014.

The total allowance for credit losses was \$283 million at March 31, 2015, \$280 million at Dec. 31, 2014 and \$326 million at March 31, 2014. The ratio of the total allowance for credit losses to non-margin loans was 0.66% at

March 31, 2015, 0.72% at Dec. 31, 2014 and 0.87% at March 31, 2014. The ratio of the allowance for loan losses to non-margin loans was 0.45% at March 31, 2015 compared with 0.49% at Dec. 31, 2014 and 0.53% at March 31, 2014. The decrease in the total allowance for credit losses and the lower ratios at March 31, 2015 compared with March 31, 2014 primarily reflects an improvement in the credit quality in the loan portfolio.

We had \$19.6 billion of secured margin loans on our balance sheet at March 31, 2015 compared with \$20.0 billion at Dec. 31, 2014 and \$16.4 billion at March 31, 2014. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to them. As a result, we believe that the ratio of total allowance for credit losses as a percentage of non-margin loans is a more appropriate metric to measure the adequacy of the reserve.

The allowance for loan losses and allowance for lending-related commitments represent management's estimate of probable losses inherent in our credit portfolio. This evaluation process is subject to numerous estimates and judgments. For additional information on this process, see "Critical accounting estimates" in our 2014 Annual Report.

To the extent actual results differ from forecasts or management's judgment, the allowance for credit losses may be greater or less than future charge-offs.

Based on an evaluation of the allowance for credit losses as discussed in "Critical accounting estimates" and Note 1 of the Notes to Consolidated Financial Statements, both in our 2014 Annual Report, we have allocated our allowance for credit losses as follows:

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| Allocation of allowance | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 | |
|-----------------------------|-------------------|---------------|----------------|---|
| Commercial | 23 | %21 | %24 | % |
| Commercial real estate | 19 | 18 | 13 | |
| Foreign | 14 | 16 | 15 | |
| Other residential mortgages | 14 | 14 | 15 | |
| Financial institutions | 12 | 11 | 15 | |
| Lease financing | 11 | 12 | 11 | |
| Wealth management (a) | 7 | 8 | 7 | |
| | 100 | %100 | %100 | % |

(a) Includes the allowance for wealth management mortgages.

The allocation of the allowance for credit losses is inherently judgmental, and the entire allowance for credit losses is available to absorb credit losses regardless of the nature of the loss.

The credit rating assigned to each credit is a significant variable in determining the allowance. If each credit were rated one grade better, the allowance would have decreased by \$84 million, while if each credit were rated one grade worse, the allowance would have increased by \$191 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by \$32 million, while if the loss given default were one rating better, the allowance would have decreased by \$28 million. For impaired credits, if the net carrying value of the loans was 10% higher or lower, the allowance would have decreased or increased by less than \$1 million, respectively.

Nonperforming assets

The following table shows the distribution of nonperforming assets.

| Nonperforming assets (dollars in millions) | March 31, 2015 | Dec. 31, 2014 | |
|--|----------------|---------------|---|
| Loans: | | | |
| Other residential mortgages | \$111 | \$112 | |
| Wealth management loans and mortgages | 12 | 12 | |
| Commercial real estate | 1 | 1 | |
| Total nonperforming loans | 124 | 125 | |
| Other assets owned | 4 | 3 | |
| Total nonperforming assets (a) | \$128 | \$128 | |
| Nonperforming assets ratio | 0.21 | %0.22 | % |
| Nonperforming assets ratio, excluding margin loans | 0.3 | 0.3 | |
| Allowance for loan losses/nonperforming loans | 153.2 | 152.8 | |
| Allowance for loan losses/nonperforming assets | 148.4 | 149.2 | |
| Total allowance for credit losses/nonperforming loans | 228.2 | 224.0 | |
| Total allowance for credit losses/nonperforming assets | 221.1 | 218.8 | |

Loans of consolidated investment management funds are not part of BNY Mellon's loan portfolio. Included in the loans of consolidated investment management funds are nonperforming loans of \$73 million at March 31, 2015 and (a) \$53 million at Dec. 31, 2014. These loans are recorded at fair value and therefore do not impact the provision for credit losses and allowance for loan losses, and accordingly are excluded from the nonperforming assets table above.

| Nonperforming assets activity (in millions) | March 31, 2015 | Dec. 31, 2014 | |
|--|----------------|---------------|---|
| Balance at beginning of period | \$128 | \$147 | |
| Additions | 5 | 4 | |
| Return to accrual status | — | (1 |) |
| Charge-offs | — | (3 |) |
| Paydowns/sales | (5 |)(19 |) |
| Balance at end of period | \$128 | \$128 | |

Nonperforming assets were \$128 million at both March 31, 2015 and Dec. 31, 2014.

Deposits

Total deposits were \$281.3 billion, an increase of 6% compared with \$265.9 billion at Dec. 31, 2014. The increase in deposits primarily reflects higher interest-bearing and noninterest-bearing deposits principally in U.S. offices and higher interest-bearing deposits in non-U.S. offices.

Noninterest-bearing deposits were \$111.6 billion at March 31, 2015 compared with \$104.3 billion at Dec. 31, 2014. Interest-bearing deposits were \$169.7 billion at March 31, 2015 compared with \$161.6 billion at Dec. 31, 2014.

Short-term borrowings

We fund ourselves primarily through deposits and, to a lesser extent, other short-term borrowings and long-term debt. Short-term borrowings consist of federal funds purchased and securities sold under repurchase agreements, payables to customers and broker-dealers, commercial paper and other borrowed funds. Certain other borrowings, for example, securities sold under repurchase agreements, require the delivery of securities as collateral.

See “Liquidity and dividends” below for a discussion of long-term debt and liquidity metrics that we monitor.

Information related to federal funds purchased and securities sold under repurchase agreements is presented below.

Federal funds purchased and securities sold under repurchase agreements

| (dollars in millions) | Quarter ended | | | |
|--|----------------|---------------|----------------|----|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 | |
| Maximum daily balance during the quarter | \$23,527 | \$26,777 | \$21,089 | |
| Average daily balance | \$13,872 | \$20,285 | \$14,505 | |
| Weighted-average rate during the quarter | (0.09 |)%(0.05 |)%(0.13 |)% |
| Ending balance | \$7,919 | \$11,469 | \$9,935 | |
| Weighted-average rate at period end | (0.10 |)%(0.02 |)%(0.14 |)% |

Fluctuations of federal funds purchased and securities sold under repurchase agreements between periods resulted from overnight borrowing opportunities. The weighted-average rates in all periods presented reflect revenue earned on securities sold under repurchase agreements related to certain securities for which we were able to charge for lending them.

Information related to payables to customers and broker-dealers is presented below.

Payables to customers and broker-dealers

| (dollars in millions) | Quarter ended | | | |
|--|----------------|---------------|----------------|---|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 | |
| Maximum daily balance during the quarter | \$22,648 | \$22,112 | \$17,961 | |
| Average daily balance (a) | \$21,581 | \$20,707 | \$16,276 | |
| Weighted-average rate during the quarter (a) | 0.07 | %0.08 | %0.09 | % |
| Ending balance | \$21,959 | \$21,181 | \$16,822 | |
| Weighted-average rate at period end | 0.07 | %0.09 | %0.10 | % |

The weighted-average rate is calculated based on, and is applied to, the average interest-bearing payables to (a) customers and broker-dealers, which were \$10,932 million in the first quarter of 2015, \$10,484 million in the fourth quarter of 2014 and \$8,883 million in the first quarter of 2014.

Payables to customers and broker-dealers represent funds awaiting re-investment and short sale proceeds payable on demand. Payables to customers and broker-dealers are driven by customer trading activity levels and market volatility.

Information related to commercial paper is presented below.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| Commercial paper (dollars in millions) | Quarter ended | | | |
|---|----------------|---------------|----------------|---|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 | |
| Maximum daily balance during the quarter | \$4,369 | \$4,800 | \$1,697 | |
| Average daily balance | \$1,113 | \$4,400 | \$102 | |
| Weighted-average rate during the quarter | 0.09 | %0.09 | %0.05 | % |
| Ending balance | \$— | \$— | \$27 | |
| Weighted-average rate at period end | — | %— | %0.02 | % |

The decrease in the average daily balance of commercial paper in the first quarter of 2015 was primarily driven by a decrease in the relative attractiveness of commercial paper funding. Our commercial paper matures within 397 days from date of issue and is not redeemable prior to maturity or subject to voluntary prepayment.

BNY Mellon 34

Information related to other borrowed funds is presented below.

| Other borrowed funds (dollars in millions) | Quarter ended | | | |
|---|----------------|---------------|----------------|---|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 | |
| Maximum daily balance during the quarter | \$3,821 | \$2,413 | \$2,000 | |
| Average daily balance | \$995 | \$870 | \$1,035 | |
| Weighted-average rate during the quarter | 0.96 | % 1.06 | % 0.51 | % |
| Ending balance | \$869 | \$786 | \$1,305 | |
| Weighted-average rate at period end | 1.17 | % 1.15 | % 0.34 | % |

Other borrowed funds primarily include overdrafts of sub-custodian account balances in our Investment Services businesses and borrowings under lines of credit by our Pershing subsidiaries. Overdrafts typically relate to timing differences for settlements. Fluctuations of other borrowed funds from prior periods primarily reflect changes in overdrafts of sub-custodian account balances in our Investment Services businesses.

Liquidity and dividends

BNY Mellon defines liquidity as the ability of the Parent and its subsidiaries to access funding or convert assets to cash quickly and efficiently, or to rollover or issue new debt, especially during periods of market stress and in order to meet its short-term (up to one year) obligations. 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 our financial condition. Liquidity risk can arise from cash flow mismatches, market constraints from the inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputational risks also can affect BNY Mellon's liquidity risk profile and are considered in our liquidity risk framework.

For additional information on our liquidity policy, see "Risk Management - Liquidity risk" in our 2014 Annual Report.

Our overall approach to liquidity management is further described in "Liquidity and Dividends" in our 2014 Annual Report.

U.S. regulators have established a liquidity coverage ratio ("LCR") that requires certain banking organizations, including BNY Mellon, to maintain a minimum amount of unencumbered high-quality liquid assets ("HQLA") sufficient to withstand the net cash outflow under a hypothetical standardized acute liquidity stress scenario for a 30-day time horizon.

The following table presents the consolidated HQLA as of March 31, 2015.

| Consolidated HQLA and LCR (in billions) | March 31, 2015 | |
|--|----------------|---|
| Securities (a) | \$ 108 | |
| Cash (b) | 86 | |
| Total consolidated HQLA (c) | \$ 194 | |
| Liquidity coverage ratio (d) | 109 | % |

(a) Primarily includes U.S. Treasury, U.S. agency, sovereign securities, securities of U.S. Government-sponsored enterprises, investment-grade corporate debt and publicly traded common equity.

(b) Primarily includes cash on deposit with central banks.

- (c) Consolidated HQLA presented before haircuts. After haircuts, consolidated HQLA totaled \$178 billion.
- (d) Based on our interpretation of the Final LCR Rule.

Starting on Jan. 1, 2015, we and our domestic bank subsidiaries are required to meet an LCR of 80% calculated monthly for a six month period, after which the LCR must be calculated daily. The required minimum LCR level will increase annually by 10% increments until Jan. 1, 2017, at which time, we will be required to meet an LCR of 100%. As of March 31, 2015, based on our interpretation of the Final LCR Rule, we believe we and our domestic bank subsidiaries are in compliance with applicable LCR requirements on a fully phased-in basis. For additional information on the LCR, see “Supervision and Regulation - Liquidity Standards - Basel III and U.S. Proposals” in our 2014 Annual Report.

We also perform liquidity stress tests to ensure the Company maintains sufficient liquidity resources under multiple stress scenarios. Stress tests are based on scenarios that measure liquidity risks under unlikely but plausible events. We perform these tests under various time horizons ranging from one day to one year in a base case, as well as supplemental tests to determine whether the Company’s liquidity is sufficient for severe market events and firm-specific events. Under our scenario testing program, the results of the tests indicate that the Company has sufficient liquidity.

35 BNY Mellon

Beginning on Jan. 1, 2015, BHCs with total consolidated assets of \$50 billion or more are subject to the Federal Reserve's Enhanced Prudential Standards, which include liquidity standards, described under "Supervision and Regulation - Enhanced Prudential Standards" in our 2014 Annual Report. BNY Mellon has taken actions to comply with these standards, various liquidity risk management standards and maintain a liquidity buffer of unencumbered highly liquid assets based on the results of internal liquidity stress testing.

We define available funds for internal liquidity management purposes as liquid funds (which include interest-bearing deposits with banks and federal funds sold and securities purchased under resale agreements), cash and due from banks, and interest-bearing deposits with the Federal Reserve and other central banks. The table below presents our total available funds including liquid funds at period-end and on an average basis. The level of available funds at March 31, 2015 was relatively flat compared with Dec. 31, 2014 as higher levels of liquid funds were offset by lower levels of interest bearing deposits with the Federal Reserve and other central banks.

| Available and liquid funds (in millions) | March 31, 2015 | Dec. 31, 2014 | Average 1Q15 | 4Q14 | 1Q14 | |
|--|-------------------|------------------|-----------------|------------|------------|---|
| Available funds: | | | | | | |
| Liquid funds: | | | | | | |
| Interest-bearing deposits with banks | \$ 18,937 | \$ 19,495 | \$ 22,071 | \$ 24,623 | \$ 41,617 | |
| Federal funds sold and securities purchased under resale agreements | 28,268 | 20,302 | 20,411 | 18,536 | 11,118 | |
| Total liquid funds | 47,205 | 39,797 | 42,482 | 43,159 | 52,735 | |
| Cash and due from banks | 7,167 | 6,970 | 6,204 | 4,715 | 5,886 | |
| Interest-bearing deposits with the Federal Reserve and other central banks | 89,704 | 96,682 | 81,160 | 97,440 | 74,399 | |
| Total available funds | \$ 144,076 | \$ 143,449 | \$ 129,846 | \$ 145,314 | \$ 133,020 | |
| Total available funds as a percentage of total assets | 36 | % 37 | % 35 | % 38 | % 37 | % |

On an average basis for the three months ended March 31, 2015 and the three months ended March 31, 2014, non-core sources of funds, such as money market rate accounts, federal funds purchased and securities sold under repurchase agreements, trading liabilities, commercial paper and other borrowings, were \$23.6 billion and \$23.3 billion, respectively. The increase primarily reflects higher money market rate accounts and commercial paper, partially offset by lower trading liabilities. Average foreign deposits, primarily from our European-based Investment Services business, were \$104.8 billion for the three months ended March 31, 2015 compared with \$101.1 billion for the three months ended March 31, 2014. The increase primarily reflects growth in client deposits. Domestic savings, interest-bearing demand and time deposits averaged \$47.9 billion for the three months ended March 31, 2015 compared with \$46.3 billion for the three months ended March 31, 2014. The increase primarily reflects higher time deposits.

Average payables to customers and broker-dealers were \$10.9 billion for the three months ended March 31, 2015 and \$8.9 billion for the three months ended March 31, 2014. Payables to customers and broker-dealers are driven by customer trading activity and market volatility. Long-term debt averaged \$20.2

billion for the three months ended March 31, 2015 and \$20.4 billion for the three months ended March 31, 2014. The decrease in average long-term debt was driven by scheduled debt maturities, partially offset by new issuances. Average noninterest-bearing deposits increased to \$89.6 billion for the three months ended March 31, 2015 from \$81.4 billion for the three months ended March 31, 2014, reflecting growth in client deposits. A significant reduction in our Investment Services business would reduce our access to deposits. See "Asset/liability management" for

additional factors that could impact our deposit balances.

The Parent has four major sources of liquidity:

- cash on hand;
- dividends from its subsidiaries;
- access to the commercial paper market; and
- access to the debt and equity markets.

Subsequent to March 31, 2015, our bank subsidiaries could declare dividends to the Parent of approximately \$1.6 billion, without the need for a regulatory waiver. In addition, at March 31, 2015, non-bank subsidiaries of the Parent had liquid assets of approximately \$1.4 billion.

BNY Mellon 36

In February 2015, BNY Mellon paid a quarterly common stock cash dividend of \$0.17 per common share. Our common stock dividend payout ratio was 25% for the first three months of 2015. The Federal Reserve's current guidance provides that, for large bank holding companies like us, dividend payout ratios exceeding 30% of after-tax net income will receive particularly close scrutiny.

Restrictions on our ability to obtain funds from our subsidiaries are discussed in more detail in "Supervision and Regulation - Capital Planning and Stress Testing - Payment of Dividends, Stock Repurchases and Other Capital Distributions" and in Note 19 of the Notes to Consolidated Financial Statements in our 2014 Annual Report.

The Parent's average commercial paper borrowings were \$1.1 billion in the first quarter of 2015 and \$102 million in the first quarter of 2014. The Parent had cash of \$7.5 billion at March 31, 2015, compared with \$7.4 billion at Dec. 31, 2014. There was no overnight commercial paper outstanding issued by the Parent at March 31, 2015 and Dec. 31, 2014. Net of commercial paper outstanding, the Parent's cash position at March 31, 2015, increased by \$120 million compared with Dec. 31, 2014, primarily reflecting loan payments from subsidiaries and the issuance of common stock, partially offset by common share repurchases.

The Parent's major uses of funds are payment of dividends, repurchases of common stock, principal and interest payments on its borrowings, acquisitions and additional investments in and loans to its subsidiaries.

In the first quarter of 2015, we repurchased 10.3 million common shares at an average price of \$38.85 per common share for a total cost of \$400 million.

The Parent's liquidity policy is to have sufficient unencumbered cash and cash equivalents on hand to meet its forecasted debt redemptions, net interest payments and net tax payments over a minimum of the next 18 months without the need to receive dividends from its bank subsidiaries or issue debt. As of March 31, 2015, the Parent was in compliance with its liquidity policy.

Our ability to access the capital markets on favorable terms, or at all, is partially dependent on our credit

ratings, which, as of March 31, 2015, were as follows:

Credit ratings

| | Moody's | S&P | Fitch | DBRS |
|----------------------------|---------|----------|--------|--------------|
| Parent: | | | | |
| Long-term senior debt | A1 | A+ | AA- | AA (low) |
| Subordinated debt | A2 | A | A+ | A (high) |
| Preferred stock | Baa2 | BBB | BBB | A (low) |
| Trust preferred securities | A3 | BBB | BBB+ | A (high) |
| Short-term debt | P1 | A-1 | F1+ | R-1 (middle) |
| Outlook - Parent: | Stable | Negative | Stable | Stable |

The Bank of New York Mellon:

| | | | | |
|-----------------------|-----|------|-----|------------|
| Long-term senior debt | Aa2 | AA- | AA- | AA |
| Long-term deposits | Aa2 | AA- | AA | AA |
| Short-term deposits | P1 | A-1+ | F1+ | R-1 (high) |

BNY Mellon, N.A.:

| | | | | |
|-----------------------|-----|------|-----|------------|
| Long-term senior debt | Aa2 | AA- | AA- | (a) AA |
| Long-term deposits | Aa2 | AA- | AA | AA |
| Short-term deposits | P1 | A-1+ | F1+ | R-1 (high) |

Long-term debt totaled \$20.4 billion at March 31, 2015 and \$20.3 billion at Dec. 31, 2014. In the first quarter of 2015, the Parent issued \$2.0 billion of senior debt, consisting of \$1.25 billion of senior medium-term notes maturing in 2020 at an annual interest rate of 2.15% and \$750 million of senior medium-term notes maturing in 2025 at an annual interest rate of 3.00%. Additionally, \$2.0 billion of long-term debt matured. The Parent has \$1.65 billion of long-term debt that will mature in the remainder of 2015.

On April 28, 2015, BNY Mellon issued 1,000,000 depository shares, each representing a 1/100th interest in a share of BNY Mellon's Series E noncumulative perpetual preferred stock. The Series E preferred stock has an aggregate liquidation preference of \$1 billion. BNY Mellon will pay dividends on the Series E preferred stock, if declared by our board of directors, at an annual rate equal to 4.950% on each June 20 and December 20, commencing Dec. 20, 2015, to and including June 20, 2020; and a floating rate equal to three-month LIBOR plus 342 basis points on each March 20, June 20, September 20 and December 20, commencing Sept. 20, 2020.

The double leverage ratio is the ratio of investment in subsidiaries divided by our consolidated equity, which includes our noncumulative perpetual preferred stock plus trust preferred securities. Our double leverage ratio was 113.0% at March 31, 2015 and 112.0% at Dec. 31, 2014. The double leverage ratio is monitored by regulators and rating agencies and is an important constraint on our ability to invest in our subsidiaries and expand our businesses.

Pershing LLC, an indirect subsidiary of BNY Mellon, has uncommitted lines of credit in place for liquidity purposes which are guaranteed by the Parent. Pershing LLC has eight separate uncommitted lines of credit amounting to \$1.5 billion in aggregate. Average daily borrowing under these lines was \$6 million, in aggregate, in the first quarter of 2015.

Pershing Limited, an indirect UK-based subsidiary of BNY Mellon, has two separate uncommitted lines of credit amounting to \$250 million in aggregate in place for liquidity purposes, which are guaranteed by the Parent. Average borrowings under these lines was \$36 million, in aggregate, in the first quarter of 2015.

Statement of cash flows

Cash used for operating activities was \$64 million in the three months ended March 31, 2015 compared with \$1.1 billion in the three months ended March 31, 2014. In the first three months of 2015, cash flows from operations were the result of changes in accruals and other balances, partially offset by earnings and trading activities. In the first three months of 2014, cash flows used for operations were principally the result of changes in accruals and other balances, partially offset by earnings.

Cash used for investing activities was \$10.3 billion in the three months ended March 31, 2015 compared with \$7.4 billion of cash provided by investing activities in the three months ended March 31, 2014. In the first three months of 2015, purchases of securities and changes in federal funds sold and securities purchased under resale agreements were a significant use of funds, partially offset by sales, paydowns, and maturities of securities and decreases in interest-bearing deposits with the Federal Reserve and other central banks. In the first three months of 2014, a decrease in interest-bearing deposits with the Federal Reserve and other central banks and sales, paydowns and maturities of securities available-for-sale, was partially offset by purchases of securities available-for-sale.

Cash provided by financing activities was \$10.6 billion in the three months ended March 31, 2015 compared with \$6.7 billion of cash used by financing activities in the three months ended March 31, 2014. In the first three months of 2015, an increase in deposits was partially offset by changes in federal funds purchased and securities sold under repurchase agreements. In the first three months of 2014, a decrease in deposits was partially offset by the proceeds from the issuance of long-term debt and an increase in payables to customers and broker-dealers.

BNY Mellon 38

Capital

| Capital data (dollar amounts in millions except per share amounts; common shares in thousands) | March 31, 2015 | Dec. 31, 2014 | | |
|---|-------------------|------------------|--|---|
| Average common equity to average assets | 9.5 | % 9.6 | | % |
| At period end: | | | | |
| BNY Mellon shareholders' equity to total assets ratio – GAAP (a) | 9.4 | % 9.7 | | % |
| BNY Mellon common shareholders' equity to total assets ratio – GAAP (a) | 9.0 | % 9.3 | | % |
| BNY Mellon tangible common shareholders' equity to tangible assets of operations ratio – Non-GAAP (a) | 6.0 | % 6.5 | | % |
| Total BNY Mellon shareholders' equity – GAAP | \$37,328 | \$37,441 | | |
| Total BNY Mellon common shareholders' equity – GAAP | \$35,766 | \$35,879 | | |
| BNY Mellon tangible common shareholders' equity – Non-GAAP (a) | \$16,618 | \$16,439 | | |
| Book value per common share – GAAP (a) | \$31.89 | \$32.09 | | |
| Tangible book value per common share – Non-GAAP (a) | \$14.82 | \$14.70 | | |
| Closing stock price per common share | \$40.24 | \$40.57 | | |
| Market capitalization | \$45,130 | \$45,366 | | |
| Common shares outstanding | 1,121,512 | 1,118,228 | | |
| Cash dividends per common share | \$0.17 | \$0.17 | | |
| Common dividend payout ratio | 25 | % 94 | | % |
| Common dividend yield (annualized) | 1.7 | % 1.7 | | % |

(a) See “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 49 for a reconciliation of GAAP to non-GAAP.

Total The Bank of New York Mellon Corporation shareholders' equity decreased to \$37.3 billion from \$37.4 billion at Dec. 31, 2014. The decrease primarily reflects foreign currency translation adjustments and share repurchases, partially offset by earnings retention and approximately \$290 million resulting from stock awards, the exercise of stock options and stock issued for employee benefit plans.

The unrealized gain net of tax on our investment securities portfolio recorded in accumulated other comprehensive income was \$774 million compared with \$675 million at Dec. 31, 2014. The increase in the valuation of the investment securities portfolio reflects a decline in market interest rates.

During the first quarter of 2015, we repurchased 10.3 million common shares at an average price of \$38.85 per common share for a total cost of \$400 million.

In March 2015, BNY Mellon received confirmation that the Federal Reserve did not object to our 2015 capital plan filed under the Federal Reserve's capital plan rules in connection with CCAR. The board of directors subsequently approved the repurchase of up to \$3.1 billion worth of common stock beginning in the second quarter of 2015 and continuing through the second quarter of 2016, including employee benefit plan repurchases. Of the \$3.1 billion authorization, common stock repurchases of \$700

million are contingent on a prior issuance of \$1 billion of qualifying preferred stock. On April 28, 2015, we completed a \$1 billion offering of preferred stock. We issued 1,000,000 depository shares, each representing a 1/100th interest in a share of BNY Mellon's Series E noncumulative perpetual preferred stock.

On April 22, 2015, The Bank of New York Mellon Corporation declared a quarterly common stock dividend of \$0.17 per common share. This cash dividend is payable on May 14, 2015 to shareholders of record as of the close of business on May 4, 2015.

BNY Mellon's tangible common shareholders' equity to tangible assets of operations ratio was 6.0% at March 31, 2015 and 6.5% at Dec. 31, 2014. The decrease primarily reflects an increase in total assets.

Capital adequacy

Regulators establish certain levels of capital for bank holding companies and banks, including BNY Mellon and our bank subsidiaries, in accordance with established quantitative measurements. For the Parent to maintain its status as a financial holding company, our bank subsidiaries and BNY Mellon must, among other things, qualify as "well capitalized".

As of March 31, 2015 and Dec. 31, 2014, BNY Mellon and our bank subsidiaries were considered “well capitalized” on the basis of the Tier 1 and Total capital to risk-weighted assets ratios and, in the case of our bank subsidiaries, the leverage capital ratio (Tier 1 capital to quarterly average assets as defined for regulatory purposes).

Failure to satisfy regulatory standards, including “well capitalized” status or capital adequacy rules more generally, could result in limitations on our activities and adversely affect our financial condition. See the discussion of these matters in our 2014 Annual Report in “Supervision and Regulation-Regulated Entities of BNY Mellon and Ancillary Regulatory Requirements” and “Risk Factors-Operational and Business Risk-Failure to satisfy regulatory standards, including “well capitalized” and “well managed” status or capital adequacy rules more generally, could result in limitations on our activities and adversely affect our business and financial condition.”

The U.S. banking agencies’ capital rules have been based on guidance from the Basel Committee on Banking Supervision, as amended from time to time. For additional information on these capital requirements see “Supervision and Regulation” in our 2014 Annual Report. BNY Mellon is subject to Basel III under the Final Capital Rules, which are being gradually phased-in over a multi-year period through 2018. Effective in the second quarter of 2014, BNY Mellon was approved to exit parallel run reporting for U.S. regulatory capital purposes related to the Final Capital Rules’ Advanced Approaches. In the first quarter of 2015, we implemented the Basel III Standardized Approach which replaced the Basel I-based calculation of risk-weighted assets (“RWA”) with a revised methodology using a broader array of more risk sensitive risk-weighting categories.

Our risk-based capital adequacy is determined using the higher of RWA determined using the Standardized Approach and Advanced Approach. The consolidated

and The Bank of New York Mellon ratios included in the table below are based on the Advanced Approach as the related RWA were higher using that framework at both March 31, 2015 and Dec. 31, 2014.

Our estimated Basel III CET1 ratios on a fully phased-in basis are based on our current interpretation of the Final Capital Rules. The estimated fully phased-in Basel III CET1 ratios assume all relevant regulatory model approvals. The Final Capital Rules require approval by banking regulators of certain models used as part of risk-weighted asset calculations. If these models are not approved, the estimated fully phased-in capital ratios would likely be adversely impacted. Risk-weighted assets at March 31, 2015 and Dec. 31, 2014 under the transitional Advanced Approach do not reflect the use of a simple value-at-risk (“VaR”) methodology for repo-style transactions (including agented indemnified securities lending transactions), eligible margin loans, and similar transactions. The Company has requested written approval to use this methodology. The estimated net impact of such a VaR methodology for March 31, 2015 regulatory capital ratios calculated under the transitional Advanced Approach would have been an increase of approximately 25 basis points to the CET1, Tier 1 and Total capital ratios. The leverage capital ratio is not impacted.

Our consolidated and largest bank subsidiary, The Bank of New York Mellon, regulatory capital ratios are shown below. We expect to deconsolidate certain consolidated investment management funds, including substantially all of the consolidated CLOs, upon adoption of the new ASU on consolidations. See “Recent accounting and regulatory developments - Recently Issued Accounting Standards” on page 54 for further discussion. The estimated impact of deconsolidating the CLOs would increase the consolidated transitional and fully phased-in Advanced Approaches capital ratios by approximately 65-75 basis points.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| Consolidated and largest bank subsidiary regulatory capital ratios | March 31, 2015 | | | | | | Dec. 31, 2014 |
|--|------------------|------------------|----------------|------|---|------|---------------|
| | Well capitalized | Minimum required | Capital ratios | | | | |
| Consolidated regulatory capital ratios: (a) | | | | | | | |
| CET1 ratio | N/A | (b) 4.5 | % | 10.0 | % | 11.2 | % |
| Tier 1 capital ratio | 6 | % 6 | % | 10.9 | % | 12.2 | % |
| Total (Tier 1 plus Tier 2) capital ratio | 10 | % 8 | % | 11.2 | % | 12.5 | % |
| Leverage capital ratio | N/A | (b) 4 | % | 5.6 | % | 5.6 | % |
| Selected regulatory capital ratios – fully phased-in – Non-GAAP: | | | | | | | |
| Estimated CET1 ratio: | | | | | | | |
| Standardized Approach | (c) | (c) | | 9.6 | % | 10.6 | % |
| Advanced Approach | (c) | (c) | | 9.2 | % | 9.8 | % |
| Estimated SLR (d) | N/A | 3 | %(e) | 4.5 | % | 4.4 | % |
| The Bank of New York Mellon regulatory capital ratios: | | | | | | | |
| CET1 ratio | 6.5 | % 4.5 | % | 11.6 | % | N/A | |
| Tier 1 capital ratio | 8 | % 6 | % | 12.0 | % | 13.0 | % |
| Total (Tier 1 plus Tier 2) capital ratio | 10 | % 8 | % | 12.3 | % | 13.2 | % |
| Leverage capital ratio | 5 | % 4 | % | 5.3 | % | 5.2 | % |

Risk-based capital ratios at March 31, 2015 and Dec. 31, 2014 include the net impact of the total consolidated (a) assets of certain consolidated investment management funds in risk-weighted assets. The leverage capital ratio was not impacted.

(b) The federal banking agencies' regulatory capital requirements do not establish well-capitalized thresholds for these measures for bank holding companies.

(c) On a fully phased-in basis, we expect to satisfy a minimum CET1 ratio of at least 7%, expected to rise to 8% or more, assuming an additional G-SIB buffer of at least 1%.

(d) The estimated fully phased-in SLR as of March 31, 2015 and Dec. 31, 2014 is based on our interpretation of the Final Capital Rules, as supplemented by the Federal Reserve's final rules on the SLR.

(e) When fully phased-in, we expect to maintain an SLR of over 5%, 3% attributable to the minimum required SLR, and greater than 2% attributable to a buffer applicable to U.S. G-SIBs.

N/A – Not applicable.

Our estimated Basel III CET1 ratio (Non-GAAP) calculated under the Advanced Approach on a fully phased-in basis was 9.2% at March 31, 2015 and 9.8% at Dec. 31, 2014. Our estimated Basel III CET1 ratio (Non-GAAP) calculated under the Standardized Approach on a fully phased-in basis was 9.6% at March 31, 2015 and 10.6% at Dec. 31, 2014. The decrease in the estimated Basel III CET1 ratio (Non-GAAP) calculated under the Advanced Approach from Dec. 31, 2014 was primarily driven by increases in RWA, which more than offset an increase in the estimated Basel III CET1 capital. The increase in RWA was primarily related to increases in operational risk RWA. The increase in capital was driven by earnings retention and stock awards, partially offset by a decrease in accumulated other comprehensive income primarily related to foreign currency translation and increases in the pension obligation.

The estimated fully phased-in SLR (Non-GAAP) of 4.5% at March 31, 2015 and 4.4% at Dec. 31, 2014 was based on our interpretation of the Final Capital Rules, as supplemented by the Federal Reserve's final rules on the SLR.

For additional information on the Final Capital Rules, see "Supervision and Regulation - Capital Requirement - Existing U.S. Requirements" in our 2014 Annual Report.

The Basel III Advanced Approach capital ratios are significantly impacted by operational losses. Our operational loss risk model is informed by external losses, including fines and penalties levied against institutions in the financial services industry, particularly those that relate to businesses in which we operate, and as a result external losses have impacted and could in the future impact the amount of capital that we are required to hold.

Management views the estimated fully phased-in Basel III CET1 and other risk-based capital ratios and SLR as key measures in monitoring BNY Mellon's capital position and progress against future regulatory capital standards. Additionally, the presentation of the estimated fully phased-in Basel III CET1 and other risk-based capital ratios and SLR are intended to allow investors to compare these ratios with estimates presented by other companies. The estimated fully phased-in Basel III CET1 and other

41 BNY Mellon

risk-based capital ratios assume all relevant regulatory approvals. The Final Capital Rules require approval by banking regulators of certain models used as part of risk-weighted asset calculations. If these models are not approved, the estimated fully phased-in Basel III CET1 and other risk-based capital ratios would likely be adversely impacted.

Our capital ratios are necessarily subject to, among other things, BNY Mellon's further review of applicable rules, anticipated compliance with all necessary enhancements to model calibration, approval by regulators of certain models used as part of RWA calculations, other refinements, further implementation guidance from regulators, market practices and standards and any changes BNY Mellon may make to its businesses. Consequently, our capital ratios remain subject to ongoing review and revision and may change based on these factors.

The table below presents the factors that impacted fully phased-in Basel III CET1.

| Estimated Basel III CET1 generation presented on a fully phased-in basis – Non-GAAP (in millions) | Quarter ended | |
|--|-------------------|------------------|
| | March 31, 2015 | Dec. 31, 2014 |
| Estimated fully phased-in Basel III CET1 – Non-GAAP – Beginning of period | \$ 15,931 | \$ 16,720 |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation – GAAP | 766 | 209 |
| Goodwill and intangible assets, net of related deferred tax liabilities | 292 | 220 |
| Gross Basel III CET1 generated | 1,058 | 429 |
| Capital deployed: | | |
| Dividends | (192) | (195) |
| Common stock repurchased | (400) | (432) |
| Total capital deployed | (592) | (627) |
| Other comprehensive income (loss): | | |
| Foreign currency translation | (562) | (279) |
| Unrealized gain on assets available-for-sale | 119 | 19 |
| Pension liabilities | (104) | (456) |
| Unrealized (loss) on cash flow hedges | (1) | (2) |
| Total other comprehensive (loss) | (548) | (718) |
| Additional paid-in capital (a) | 261 | 127 |
| Other additions (deductions): | | |
| Net pension fund assets | (18) | 19 |
| Deferred tax assets | 2 | (1) |
| Cash flow hedges | 1 | 2 |
| Embedded goodwill | 26 | (18) |
| Other | 2 | (2) |
| Total other additions | 13 | — |
| Net Basel III CET1 generated | 192 | (789) |
| Estimated fully phased-in Basel III CET1 – Non-GAAP – End of period | \$ 16,123 | \$ 15,931 |

(a) Primarily related to stock awards, the exercise of stock options and stock issued for employee benefit plans.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

The following table presents the components of our transitional and fully phased-in Basel III CET1, Tier 1 and Tier 2 capital, the Basel III RWA determined under both the Standardized and Advanced Approaches, the average assets used for leverage capital purposes and the leverage exposure for estimated SLR purposes.

| Basel III capital components and ratios (a) (in millions) | March 31, 2015 | | Dec. 31, 2014 | | |
|--|------------------|------------------|------------------|------------------|---|
| | Transitional | Fully phased-in | Transitional | Fully phased-in | |
| CET1: | | | | | |
| Common shareholders' equity | \$36,092 | \$35,766 | \$36,326 | \$35,879 | |
| Goodwill and intangible assets | (17,440) | (19,148) | (17,111) | (19,440) | |
| Net pension fund assets | (42) | (105) | (17) | (87) | |
| Equity method investments | (315) | (375) | (314) | (401) | |
| Deferred tax assets | (7) | (16) | (4) | (18) | |
| Other | 5 | 1 | 4 | (2) | |
| Total CET1 | 18,293 | 16,123 | 18,884 | 15,931 | |
| Other Tier 1 capital: | | | | | |
| Preferred stock | 1,562 | 1,562 | 1,562 | 1,562 | |
| Trust preferred securities | 74 | — | 156 | — | |
| Disallowed deferred tax assets | (9) | — | (14) | — | |
| Net pension fund assets | (63) | — | (69) | — | |
| Other | (5) | (2) | (17) | (12) | |
| Total Tier 1 capital | 19,852 | 17,683 | 20,502 | 17,481 | |
| Tier 2 capital: | | | | | |
| Trust preferred securities | 223 | — | 156 | — | |
| Subordinated debt | 298 | 298 | 298 | 298 | |
| Allowance for credit losses | 283 | 283 | 280 | 280 | |
| Other | (1) | (1) | (11) | (11) | |
| Total Tier 2 capital - Standardized Approach | 803 | 580 | 723 | 567 | |
| Excess of expected credit losses | 17 | 17 | 13 | 24 | |
| Less: Allowance for credit losses | 283 | 283 | 280 | 280 | |
| Total Tier 2 capital - Advanced Approach | \$537 | \$314 | \$456 | \$311 | |
| Total capital: | | | | | |
| Standardized Approach | \$20,655 | \$18,263 | \$21,225 | \$18,048 | |
| Advanced Approach | \$20,389 | \$17,997 | \$20,958 | \$17,792 | |
| Risk-weighted assets: | | | | | |
| Standardized Approach | \$169,608 | \$167,790 | \$125,562 | \$150,881 | |
| Advanced Approach: | | | | | |
| Credit Risk | \$122,902 | \$116,380 | \$120,122 | \$114,105 | |
| Market Risk | 3,396 | 3,396 | 3,046 | 3,046 | |
| Operational Risk | 56,375 | 56,375 | 45,112 | 45,112 | |
| Total Advanced Approach | \$182,673 | \$176,151 | \$168,280 | \$162,263 | |
| Standardized Approach: | | | | | |
| Estimated Basel III CET1 ratio | 10.8 | %9.6 | %15.0 | %10.6 | % |
| Tier 1 capital ratio | 11.7 | %10.5 | %16.3 | %11.6 | % |
| Total (Tier 1 plus Tier 2) capital ratio | 12.2 | %10.9 | %16.9 | %12.0 | % |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Advanced Approach:

| | | | | | |
|--|------|--------|--------|--------|---|
| Estimated Basel III CET1 ratio | 10.0 | % 9.2 | % 11.2 | % 9.8 | % |
| Tier 1 capital ratio | 10.9 | % 10.0 | % 12.2 | % 10.8 | % |
| Total (Tier 1 plus Tier 2) capital ratio | 11.2 | % 10.2 | % 12.5 | % 11.0 | % |

| | | | | |
|---|-----------|-----------|-----------|-----------|
| Average assets for leverage capital purposes | \$357,339 | | \$368,140 | |
| Total leverage exposure for estimated SLR purposes - Non-GAAP | | \$393,062 | | \$398,813 |

(a) On a regulatory basis as determined under the Final Capital Rules.

The following table presents the amount of capital by which BNY Mellon and our largest bank subsidiary, The Bank of New York Mellon, exceeded the capital thresholds determined under the transitional rules at March 31, 2015.

Capital above thresholds at March 31, 2015

| (in millions) | Consolidated | | The Bank of New York Mellon (b) |
|--------------------|--------------|-----|---------------------------------|
| CET1 | \$10,073 | (a) | \$6,490 |
| Tier 1 capital (b) | 8,892 | | 5,136 |
| Total capital (b) | 2,122 | | 2,914 |
| Leverage capital | 5,558 | (a) | 979 |

(a) Based on minimum required standards.

(b) Based on well-capitalized standards.

The following table shows the impact of a \$1 billion increase or decrease in risk-weighted assets/quarterly average assets or a \$100 million increase or decrease in common equity on the consolidated capital ratios at March 31, 2015.

Sensitivity of consolidated capital ratios at March 31, 2015

| (basis points) | Increase or decrease of | |
|---|--------------------------------|--|
| | \$100 million in common equity | \$1 billion in risk-weighted assets/quarterly average assets |
| CET1: | | |
| Standardized Approach | 6 | 6 |
| Advanced Approach | 5 | 6 |
| Tier 1 capital: | | |
| Standardized Approach | 6 | 7 |
| Advanced Approach | 5 | 6 |
| Total capital: | | |
| Standardized Approach | 6 | 7 |
| Advanced Approach | 5 | 6 |
| Leverage capital | 3 | 2 |
| Estimated CET1 ratio, fully phased-in – Non-GAAP: | | |
| Standardized Approach | 6 | 6 |
| Advanced Approach | 6 | 5 |
| Estimated SLR, fully phased-in – Non-GAAP | 3 | 1 |

At March 31, 2015, we had \$297 million of trust preferred securities outstanding, of which 25% currently qualify as Tier 1 capital and 75% as Tier 2 capital. Under the Final Capital Rules, these trust preferred securities may continue to be included in Tier 1 capital up to the following percentages: calendar year 2015 - 25% and calendar year 2016 and beyond - 0%. Certain amounts of trust preferred securities that are excluded from additional Tier 1 capital due to this phase-in schedule may be eligible for inclusion in Tier 2 capital, pursuant to the standards established in the Final Capital Rules. Any decision to take action with respect to these trust preferred securities will be based on several

considerations including interest rates and the availability of cash and capital.

Capital ratios vary depending on the size of the balance sheet at quarter-end and the level and types of investments in assets. The balance sheet size fluctuates from quarter to quarter based on levels of customer and market activity. In general, when servicing clients are more actively trading securities, deposit balances and the balance sheet as a whole are higher. In addition, when markets experience significant volatility or stress, our balance sheet size may increase considerably as client deposit levels increase.

Supplementary leverage ratio

BNY Mellon has presented its estimated fully phased-in Basel III SLR based on its interpretation of the Final Capital Rules, which are being gradually phased-in over a multi-year period, as supplemented by the Federal Reserve's final rules concerning the SLR published on Sept. 3, 2014, and on the application of such rules to BNY Mellon's businesses as currently conducted. When fully phased-in, we expect to maintain an SLR of over 5%, 3% attributable to the minimum required SLR, and greater than 2% attributable to a buffer applicable to U.S. G-SIBs.

BNY Mellon 44

The following table presents the components of our fully phased-in estimated SLR.

| | | | |
|---|-------------------|------------------|---|
| Estimated fully phased-in SLR – Non-GAAP (dollars in millions) | March 31, 2015 | Dec. 31, 2014 | |
| Total estimated fully phased-in Basel III CET1 – Non-GAAP | \$16,123 | \$15,931 | |
| Additional Tier 1 capital | 1,560 | 1,550 | |
| Total Tier 1 capital | \$17,683 | \$17,481 | |
| Total leverage exposure: | | | |
| Quarterly average total assets | \$374,890 | \$385,232 | |
| Less: Amounts deducted from Tier 1 capital | 19,643 | 19,947 | |
| Total on-balance sheet assets, as adjusted | 355,247 | 365,285 | |
| Off-balance sheet exposures: | | | |
| Potential future exposure for derivatives contracts (plus certain other items) | 9,295 | 11,376 | |
| Repo-style transaction exposures included in SLR | 6,474 | 302 | |
| Credit-equivalent amount of other off-balance sheet exposures (less SLR exclusions) | 22,046 | 21,850 | |
| Total off-balance sheet exposures | 37,815 | 33,528 | |
| Total leverage exposure | \$393,062 | \$398,813 | |
| Estimated fully phased-in SLR – Non-GAAP | 4.5 | %4.4 | % |

Trading activities and risk management

Our trading activities are focused on acting as a market maker for our customers and facilitating customer trades. Positions managed for our own account are immaterial to our foreign exchange and other trading revenue and to our overall results of operations. The risk from market-making activities for customers is managed by our traders and limited in total exposure through a system of position limits, VaR methodology based on a Monte Carlo simulation, stop loss advisory triggers, and other market sensitivity measures. The calculation of our VaR used by management and presented below assumes a one-day holding period, utilizes a 99% confidence level, and incorporates the non-linear characteristics of options. See Note 16 of the Notes to Consolidated Financial Statements for additional information on the VaR methodology.

The following tables indicate the calculated VaR amounts for the trading portfolio for the designated periods:

| VaR (a) (in millions) | 1st Quarter 2015 | | | March 31, 2015 |
|--------------------------|------------------|---------|---------|-------------------|
| | Average | Minimum | Maximum | |
| Interest rate | \$5.2 | \$3.6 | \$8.0 | \$6.3 |
| Foreign exchange | 0.9 | 0.6 | 1.4 | 0.7 |
| Equity | 1.4 | 0.8 | 1.9 | 1.3 |
| Diversification | (2.0 |) N/M | N/M | (2.2 |
| Overall portfolio | 5.5 | 3.9 | 8.5 | 6.1 |

| VaR (a) (in millions) | 4th Quarter 2014 | | | Dec. 31, 2014 |
|--------------------------|------------------|---------|---------|---------------|
| | Average | Minimum | Maximum | |
| Interest rate | \$5.2 | \$3.8 | \$7.0 | \$3.8 |
| Foreign exchange | 1.0 | 0.6 | 1.8 | 0.7 |
| Equity | 0.9 | 0.6 | 1.5 | 0.8 |
| Diversification | (1.6 |) N/M | N/M | (1.3 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | |
|-------------------|-----|-----|-----|-----|
| Overall portfolio | 5.5 | 4.0 | 7.0 | 4.0 |
|-------------------|-----|-----|-----|-----|

| VaR (a) (in millions) | 1st Quarter 2014 | | | March 31, 2014 | |
|--------------------------|------------------|---------|---------|-------------------|---|
| | Average | Minimum | Maximum | | |
| Interest rate | \$8.5 | \$6.5 | \$13.4 | \$9.0 | |
| Foreign exchange | 1.1 | 0.5 | 1.8 | 1.2 | |
| Equity | 2.3 | 1.3 | 4.0 | 1.9 | |
| Diversification | (2.9 |) N/M | N/M | (3.3 |) |
| Overall portfolio | 9.0 | 6.9 | 13.0 | 8.8 | |

VaR figures do not reflect the impact of the credit valuation adjustment (“CVA”) guidance in Accounting Standards (a) Codification (“ASC”) 820. This is consistent with the regulatory treatment. VaR exposure does not include the impact of the Company’s consolidated investment management funds and seed capital investments.

N/M - Because the minimum and maximum may occur on different days for different risk components, it is not meaningful to compute a minimum and maximum portfolio diversification effect.

The interest rate component of VaR represents instruments whose values predominantly vary with the level or volatility of interest rates. These instruments include, but are not limited to: debt securities, mortgage-backed securities, swaps, swaptions, forward rate agreements, exchange-traded futures and options, and other interest rate derivative products.

45 BNY Mellon

The foreign exchange component of VaR represents instruments whose values predominantly vary with the level or volatility of currency exchange rates or interest rates. These instruments include, but are not limited to: currency balances, spot and forward transactions, currency options, and exchange-traded futures and options, and other currency derivative products.

The equity component of VaR is comprised of instruments that represent an ownership interest in the form of domestic and foreign common stock or other equity-linked instruments. These instruments include, but are not limited to: common stock, exchange-traded funds, Depositary Receipts, listed equity options (puts and calls), OTC equity options, equity total return swaps, equity index futures and other equity derivative products.

The diversification component of VaR is the risk reduction benefit that occurs when combining portfolios and offsetting positions, and from the correlated behavior of risk factor movements.

During the first quarter of 2015, interest rate risk generated 69% of average VaR, equity risk generated 19% of average VaR and foreign exchange risk accounted for 12% of average VaR. During the first quarter of 2015, our daily trading loss did not exceed our calculated VaR amount of the overall portfolio on any given day.

The following table of total daily trading revenue or loss illustrates the number of trading days in which our trading revenue or loss fell within particular ranges during the past five quarters. The year-over-year and sequential variances are due to higher foreign exchange trading volatility.

Distribution of trading revenue (loss) (a)

| (dollar amounts in millions) | Quarter ended | | | | |
|---------------------------------|-------------------|------------------|----------------|---------------|----------------|
| | March 31, 2014 | June 30, 2014 | Sept. 30, 2014 | Dec. 31, 2014 | March 31, 2015 |
| Revenue range: | Number of days | | | | |
| Less than \$(2.5) | — | — | — | — | 1 |
| \$(2.5) - \$0 | 9 | 6 | 3 | 7 | 2 |
| \$0 - \$2.5 | 25 | 31 | 34 | 28 | 18 |
| \$2.5 - \$5.0 | 24 | 26 | 20 | 18 | 24 |
| More than \$5.0 | 3 | 1 | 7 | 9 | 16 |

Trading revenue (loss) includes realized and unrealized gains and losses primarily related to spot and forward (a) foreign exchange transactions, derivatives, and securities trades for our customers and excludes any associated commissions, underwriting fees and net interest revenue.

Trading assets include debt and equity instruments and derivative assets, primarily interest rate and foreign exchange contracts, not designated as hedging instruments. Trading assets were \$10 billion at both March 31, 2015 and Dec. 31, 2014.

Trading liabilities include debt and equity instruments, and derivative liabilities, primarily interest rate and foreign exchange contracts, not designated as hedging instruments. Trading liabilities were \$7 billion at both March 31, 2015 and Dec. 31, 2014.

Under our mark-to-market methodology for derivative contracts, an initial “risk-neutral” valuation is performed on each position assuming time-discounting based on a AA credit curve. In addition, we consider credit risk in arriving at the fair value of our derivatives.

We reflect external credit ratings as well as observable credit default swap spreads for both ourselves as well as our counterparties when measuring the fair value of our derivative positions. Accordingly, the valuation of our derivative positions is sensitive to the current changes in our own credit spreads, as well as those of our counterparties. In addition, in cases where a counterparty is deemed impaired, further analyses are performed to value such positions.

At March 31, 2015, our OTC derivative assets of \$6.6 billion included a CVA deduction of \$52 million. Our OTC derivative liabilities of \$7.3 billion included a debit valuation adjustment (“DVA”) of \$5 million related to our own credit spread. Net of hedges, the CVA decreased \$2 million and the DVA increased \$1 million in the first quarter of 2015. The net impact of these adjustments increased foreign exchange and other trading revenue by \$3 million in the first quarter of 2015.

In the fourth quarter of 2014, net of hedges, the CVA and the DVA were both unchanged. There was no impact related to the CVA and DVA on foreign exchange and other trading revenue in the fourth quarter of 2014.

In the first quarter of 2014, net of hedges, the CVA decreased \$1 million and the DVA increased \$1 million. The net impact of these adjustments increased foreign exchange and other trading revenue by \$2 million in the first quarter of 2014.

The table below summarizes the risk ratings for our foreign exchange and interest rate derivative counterparty credit exposure. This information indicates the degree of risk to which we are exposed. Significant changes in ratings classifications for our foreign exchange and other trading activity could result in increased risk for us.

Foreign exchange and other trading
counterparty risk rating profile (a)

| | Quarter ended | | | | | |
|---|-------------------|------------------|----------------|---------------|----------------|---|
| | March 31, 2014 | June 30, 2014 | Sept. 30, 2014 | Dec. 31, 2014 | March 31, 2015 | |
| Rating: | | | | | | |
| AAA to AA- | 41 | %44 | %37 | %37 | %37 | % |
| A+ to A- | 38 | 35 | 45 | 46 | 47 | |
| BBB+ to BBB- | 16 | 16 | 14 | 14 | 14 | |
| Non-investment grade (BB+ and lower) | 5 | 5 | 4 | 3 | 2 | |
| Total | 100 | %100 | %100 | %100 | %100 | % |

(a) Represents credit rating agency equivalent of internal credit ratings.

Asset/liability management

Our diversified business activities include processing securities, accepting deposits, investing in securities, lending, raising money as needed to fund assets, and other transactions. The market risks from these activities are interest rate risk and foreign exchange risk. Our primary market risk is exposure to movements in U.S. dollar interest rates and certain foreign currency interest rates. We actively manage interest rate sensitivity and use earnings simulation and discounted cash flow models to identify interest rate exposures.

An earnings simulation model is the primary tool used to assess changes in pre-tax net interest revenue. The model incorporates management's assumptions regarding interest rates, balance changes on core deposits, market spreads, changes in the prepayment behavior of loans and securities and the impact of derivative financial instruments used for interest rate risk management purposes. These assumptions have been developed through a combination of historical analysis and future expected pricing behavior and are inherently uncertain. As a result, the earnings simulation model cannot precisely estimate net interest revenue or the impact of higher or lower interest rates on net interest revenue. Actual results may differ from projected results due to timing, magnitude and frequency of interest rate changes, and changes in market conditions and management's strategies, among other factors.

These scenarios do not reflect strategies that management could employ to limit the impact as interest rate expectations change. The table below relies on certain critical assumptions regarding the balance sheet and depositors' behavior related to interest rate fluctuations and the prepayment and extension risk in certain of our assets. To the extent that actual behavior is different from that assumed in the models, there could be a change in interest rate sensitivity.

We evaluate the effect on earnings by running various interest rate ramp scenarios from a baseline scenario. These scenarios are reviewed to examine the impact of large interest rate movements. Interest rate sensitivity is quantified by calculating the change in pre-tax net interest revenue between the scenarios over a 12-month measurement period.

The following table shows net interest revenue sensitivity for BNY Mellon:

Estimated changes in net interest revenue

| (dollars in millions) | March 31, 2014 | June 30, 2014 | Sept. 30, 2014 | Dec. 31, 2014 | March 31, 2015 |
|---|-------------------|------------------|-------------------|------------------|-------------------|
| up 200 bps parallel rate ramp vs. baseline (a) | \$447 | \$426 | \$457 | \$363 | \$210 |
| up 100 bps parallel rate ramp vs. baseline (a) | 376 | 364 | 365 | 326 | 262 |
| Long-term up 50 bps, short-term unchanged (b) | 50 | 47 | 37 | 28 | 14 |
| Long-term down 50 bps, short-term unchanged (b) | (46) | (40) | (44) | (54) | (69) |

(a) In the parallel rate ramp, both short-term and long-term rates move in four equal quarterly increments.

(b) Long-term is equal to or greater than one year.

bps – basis points.

Incremental investment in fixed rate assets has resulted in higher net interest revenue projections in the baseline scenario, however, it has lowered net interest revenue sensitivity. Further, increased deposit run-off assumptions in our scenarios also reduced net interest revenue sensitivity. These assumptions are highly sensitive to the future course of monetary policy.

The 100 basis point ramp scenario assumes rates increase 25 basis points in each of the next four quarters and the 200 basis point ramp scenario assumes a 50 basis point per quarter increase.

Our net interest revenue sensitivity table above incorporates assumptions about the impact of changes in interest rates on depositor behavior based on historical experience. Given the current historically low interest rate environment and the potential change to implementation of monetary policy, the impact of depositor behavior is highly uncertain. Growth or contraction of deposits could also be affected by the following factors:

- ♣Monetary policy;
- ♣Global economic uncertainty;
- ♣Our ratings relative to other financial institutions' ratings; and
- ♣Money market mutual fund and other regulatory reform.

Any of these events could change our assumptions about depositor behavior and have a significant impact on our balance sheet and net interest revenue.

Off-balance sheet arrangements

Off-balance sheet arrangements discussed in this section are limited to guarantees, retained or contingent interests and obligations arising out of unconsolidated VIEs. For BNY Mellon, these items include certain credit guarantees and securitizations. Guarantees include: lending-related guarantees issued as part of our corporate banking business and securities lending indemnifications issued as part of our Investment Services business. See Note 17 of the Notes to Consolidated Financial Statements for a further discussion of our off-balance sheet arrangements.

Supplemental information - Explanation of GAAP and Non-GAAP financial measures

BNY Mellon has included in this Form 10-Q certain Non-GAAP financial measures based on fully phased-in Basel III CET1 and other risk-based capital ratios, SLR and tangible common shareholders' equity. BNY Mellon believes that the Basel III CET1 and other risk-based capital ratios on a fully phased-in basis, the SLR on a fully phased-in basis and the ratio of tangible common shareholders' equity to tangible assets of operations are measures of capital strength that provide additional useful information to investors, supplementing the capital ratios which are, or were, utilized by regulatory authorities. The tangible common shareholders' equity ratio includes changes in investment securities valuations which are reflected in total shareholders' equity. In addition, this ratio is expressed as a percentage of the actual book value of assets, as opposed to a percentage of a risk-based reduced value established in accordance with regulatory requirements, although BNY Mellon in its reconciliation has excluded certain assets which are given a zero percent risk-weighting for regulatory purposes and the assets of consolidated investment management funds to which BNY Mellon has limited economic exposure. Further, BNY Mellon believes that the return on tangible common equity measure, which excludes goodwill and intangible assets net of deferred tax liabilities, is a useful additional measure for investors because it presents a measure of those assets that can generate income. BNY Mellon has provided a measure of tangible book value per share, which it believes provides additional useful information as to the level of tangible assets in relation to shares of common stock outstanding.

BNY Mellon has presented revenue measures which exclude the effect of noncontrolling interests related to consolidated investment management funds; and expense measures which exclude M&I expenses, litigation charges, restructuring charges, amortization of intangible assets and the charge (recovery) related to investment management funds, net of incentives. Earnings per share, return on equity measures and operating margin measures, which exclude some or all of these items, are also presented. Earnings per share and return on equity measures also exclude the benefit primarily related to a tax carryback claim. Operating margin measures may also exclude amortization of intangible assets and the net negative impact of money market fee waivers, net of distribution and servicing expense. BNY Mellon

believes that these measures are useful to investors because they permit a focus on period-to-period comparisons, which relate to the ability of BNY Mellon to enhance revenues and limit expenses in circumstances where such matters are within BNY Mellon's control. The excluded items, in general, relate to certain charges as a result of prior transactions. M&I expenses primarily relate to acquisitions and generally continue for approximately three years after the transaction. Litigation charges represent accruals for loss contingencies that are both probable and reasonably estimable, but exclude standard business-related legal fees. Restructuring charges relate to our streamlining actions, Operational Excellence Initiatives and migrating positions to Global Delivery Centers. Excluding these charges mentioned above permits investors to view expenses on a basis consistent with how management views the business.

The presentation of revenue growth on a constant currency basis permits investors to assess the significance of changes in foreign currency exchange rates. Growth rates on a constant currency basis were determined by applying the current period foreign currency exchange rates to the prior period revenue. BNY Mellon believes that this presentation, as a supplement to GAAP information, gives investors a clearer picture of the related revenue results without the variability caused by fluctuations in foreign currency exchange rates.

The presentation of income from consolidated investment management funds, net of net income attributable to noncontrolling interests related to the consolidation of certain investment management funds permits investors to view revenue on a basis consistent with how management views the business. BNY Mellon believes that these presentations, as a supplement to GAAP information, give investors a clearer picture of the results of its primary businesses.

In this Form 10-Q, the net interest margin is presented on an FTE basis. We believe that this presentation provides comparability of amounts arising from both taxable and tax-exempt sources, and is consistent with industry practice.

The adjustment to an FTE basis has no impact on net income. Each of these measures as described above is used by management to monitor financial performance, both on a company-wide and on a business-level basis.

49 BNY Mellon

The following table presents the reconciliation of net income and diluted earnings per common share.

| Reconciliation of net income and diluted EPS – GAAP to Non-GAAP | 4Q14 | |
|--|--------|---------|
| (in millions, except per common share amounts) | Net | Diluted |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation – GAAP | income | EPS |
| | \$209 | \$0.18 |
| Less: Benefit primarily related to a tax carryback claim | 150 | 0.13 |
| Add: Litigation and restructuring charges | 608 | 0.53 |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation – Non-GAAP | \$667 | \$0.58 |

The following table presents the reconciliation of the pre-tax operating margin ratio.

| Reconciliation of income before income taxes – pre-tax operating margin (dollars in millions) | 1Q15 | 4Q14 | 1Q14 | |
|---|---------|---------|---------|---|
| Income before income taxes – GAAP | \$1,149 | \$164 | \$926 | |
| Less: Net income attributable to noncontrolling interests of consolidated investment management funds | 90 | 24 | 20 | |
| Add: Amortization of intangible assets | 66 | 73 | 75 | |
| M&I, litigation and restructuring charges | (3) | 800 | (12) | |
| Charge (recovery) related to investment management funds, net of incentives | — | — | (5) | |
| Income before income taxes, as adjusted – Non-GAAP (a) | \$1,122 | \$1,013 | \$964 | |
| Fee and other revenue – GAAP | \$3,002 | \$2,935 | \$2,883 | |
| Income from consolidated investment management funds – GAAP | 121 | 42 | 36 | |
| Net interest revenue – GAAP | 728 | 712 | 728 | |
| Total revenue – GAAP | 3,851 | 3,689 | 3,647 | |
| Less: Net income attributable to noncontrolling interests of consolidated investment management funds | 90 | 24 | 20 | |
| Total revenue, as adjusted – Non-GAAP (a) | \$3,761 | \$3,665 | \$3,627 | |
| Pre-tax operating margin (b) | 30 | %(c) 4 | %25 | % |
| Pre-tax operating margin – Non-GAAP (a)(b) | 30 | %(c) 28 | %27 | % |

Non-GAAP excludes net income attributable to noncontrolling interests of consolidated investment management (a) funds, amortization of intangible assets, M&I, litigation and restructuring charges, and a charge (recovery) related to investment management funds, net of incentives, if applicable.

(b) Income before taxes divided by total revenue.

Our GAAP earnings include tax-advantaged investments such as low income housing, renewable energy, bank-owned life insurance and tax-exempt securities. The benefits of these investments are primarily reflected in (c) tax expense. If reported on a tax-equivalent basis these investments would increase revenue and income before taxes by \$64 million for 1Q15 and would increase our pre-tax operating margin by approximately 1.2%.

The following table presents the reconciliation of the returns on common equity and tangible common equity.

| | | | | |
|--|----------|----------|----------|---|
| Return on common equity and tangible common equity (dollars in millions) | 1Q15 | 4Q14 | 1Q14 | |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation – GAAP | \$766 | \$209 | \$661 | |
| Add: Amortization of intangible assets, net of tax | 43 | 47 | 49 | |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation excluding amortization of intangible assets – Non-GAAP | 809 | 256 | 710 | |
| Less: Benefit primarily related to a tax carryback claim | — | 150 | — | |
| Add: M&I, litigation and restructuring charges | (2 |) 608 | (7 |) |
| Charge (recovery) related to investment management funds, net of incentives | — | — | (4 |) |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation, as adjusted – Non-GAAP (a) | \$807 | \$714 | \$699 | |
| | | | | |
| Average common shareholders' equity | \$35,486 | \$36,859 | \$36,289 | |
| Less: Average goodwill | 17,756 | 17,924 | 18,072 | |
| Average intangible assets | 4,088 | 4,174 | 4,422 | |
| Add: Deferred tax liability – tax deductible goodwill (b) | 1,362 | 1,340 | 1,306 | |
| Deferred tax liability – intangible assets (b) | 1,200 | 1,216 | 1,259 | |
| Average tangible common shareholders' equity – Non-GAAP | \$16,204 | \$17,317 | \$16,360 | |
| | | | | |
| Return on common equity – GAAP (c) | 8.8 | %2.2 | %7.4 | % |
| Return on common equity – Non-GAAP (a)(c) | 9.2 | %7.7 | %7.8 | % |
| | | | | |
| Return on tangible common equity – Non-GAAP (a)(c) | 20.3 | %5.9 | %17.6 | % |
| Return on tangible common equity – Non-GAAP adjusted (a)(c) | 20.2 | %16.3 | %17.3 | % |

Non-GAAP excludes amortization of intangible assets, the benefit primarily related to a tax carryback claim, M&I, (a) litigation and restructuring charges, and a charge (recovery) related to investment management funds, net of incentives, if applicable.

(b) Deferred tax liabilities are based on fully phased-in Basel III rules.

(c) Annualized.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

The following table presents the reconciliation of the equity to assets ratio and book value per common share.

| Equity to assets and book value per common share (dollars in millions, unless otherwise noted) | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 | |
|---|-------------------|------------------|-------------------|---|
| BNY Mellon shareholders' equity at period end – GAAP | \$37,328 | \$37,441 | \$37,986 | |
| Less: Preferred stock | 1,562 | 1,562 | 1,562 | |
| BNY Mellon common shareholders' equity at period end – GAAP | 35,766 | 35,879 | 36,424 | |
| Less: Goodwill | 17,663 | 17,869 | 18,100 | |
| Intangible assets | 4,047 | 4,127 | 4,380 | |
| Add: Deferred tax liability – tax deductible goodwill (a) | 1,362 | 1,340 | 1,306 | |
| Deferred tax liability – intangible assets (a) | 1,200 | 1,216 | 1,259 | |
| BNY Mellon tangible common shareholders' equity at period end – Non-GAAP | \$16,618 | \$16,439 | \$16,509 | |
| | | | | |
| Total assets at period end – GAAP | \$399,088 | \$385,303 | \$368,241 | |
| Less: Assets of consolidated investment management funds | 8,425 | 9,282 | 11,451 | |
| Subtotal assets of operations – Non-GAAP | 390,663 | 376,021 | 356,790 | |
| Less: Goodwill | 17,663 | 17,869 | 18,100 | |
| Intangible assets | 4,047 | 4,127 | 4,380 | |
| Cash on deposit with the Federal Reserve and other central banks (b) | 93,044 | 99,901 | 83,736 | |
| Tangible total assets of operations at period end – Non-GAAP | \$275,909 | \$254,124 | \$250,574 | |
| | | | | |
| BNY Mellon shareholders' equity to total assets ratio – GAAP | 9.4 | %9.7 | %10.3 | % |
| BNY Mellon common shareholders' equity to total assets ratio – GAAP | 9.0 | %9.3 | %9.9 | % |
| BNY Mellon tangible common shareholders' equity to tangible assets of operations ratio – Non-GAAP | 6.0 | %6.5 | %6.6 | % |
| | | | | |
| Period-end common shares outstanding (in thousands) | 1,121,512 | 1,118,228 | 1,140,373 | |
| | | | | |
| Book value per common share – GAAP | \$31.89 | \$32.09 | \$31.94 | |
| Tangible book value per common share – Non-GAAP | \$14.82 | \$14.70 | \$14.48 | |

(a) Deferred tax liabilities are based on fully phased-in Basel III rules.
(b) Assigned a zero percentage risk-weighting by the regulators.

The following table presents income from consolidated investment management funds, net of noncontrolling interests.

| Income from consolidated investment management funds, net of noncontrolling interests (in millions) | 1Q15 | 4Q14 | 1Q14 |
|--|-------|------|------|
| Income from consolidated investment management funds | \$121 | \$42 | \$36 |
| Less: Net income attributable to noncontrolling interests of consolidated investment management funds | 90 | 24 | 20 |
| Income from consolidated investment management funds, net of noncontrolling interests | \$31 | \$18 | \$16 |

The following table presents the impact of changes in foreign currency exchange rates on our consolidated investment management and performance fees.

Investment management and performance fees - Consolidated 1Q15 vs.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| (in millions) | 1Q15 | 1Q14 | 1Q14 | |
|--|-------|-------|------|---|
| Investment management and performance fees - GAAP | \$854 | \$843 | 1 | % |
| Impact of changes in foreign currency exchange rates | — | (40 |) | |
| Investment management and performance fees, as adjusted - Non-GAAP | \$854 | \$803 | 6 | % |

BNY Mellon 52

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

The following table presents the revenue line items in the Investment Management business impacted by the consolidated investment management funds.

| Income from consolidated investment management funds, net of noncontrolling interests - Investment Management business | | | |
|--|------|------|------|
| (in millions) | 1Q15 | 4Q14 | 1Q14 |
| Investment management fees | \$14 | \$15 | \$18 |
| Other (Investment income) | 17 | 3 | (2) |
| Income from consolidated investment management funds, net of noncontrolling interests | \$31 | \$18 | \$16 |

The following table presents the impact of changes in foreign currency exchange rates on investment management fees reported in the Investment Management segment.

| Investment management fees - Investment Management business | | | 1Q15 vs. | |
|---|-------|-------|----------|---|
| (in millions) | 1Q15 | 1Q14 | 1Q14 | |
| Investment management fees - GAAP | \$835 | \$824 | 1 | % |
| Impact of changes in foreign currency exchange rates | — | (40) | | |
| Investment management fees, as adjusted - Non-GAAP | \$835 | \$784 | 7 | % |

The following table presents the reconciliation of the pre-tax operating margin for the Investment Management business.

| Pre-tax operating margin - Investment Management business | | | | | | |
|---|-------|---------|---------|-------|---------|---|
| (dollars in millions) | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15 | |
| Income before income taxes – GAAP | \$246 | \$171 | \$245 | \$239 | \$264 | |
| Add: Amortization of intangible assets | 31 | 31 | 31 | 30 | 25 | |
| Money market fee waivers | 35 | 28 | 29 | 34 | 34 | |
| Charge (recovery) related to investment management funds, net of incentives | (5) | 109 | — | — | — | |
| Income before income taxes excluding amortization of intangible assets, money market fee waivers and the charge (recovery) related to investment management funds, net of incentives – Non-GAAP | \$307 | \$339 | \$305 | \$303 | \$323 | |
| Total revenue – GAAP | \$970 | \$1,036 | \$1,003 | \$998 | \$1,010 | |
| Less: Distribution and servicing expense | 106 | 111 | 105 | 102 | 97 | |
| Money market fee waivers benefiting distribution and servicing expense | 38 | 37 | 38 | 36 | 38 | |
| Add: Money market fee waivers impacting total revenue | 73 | 65 | 67 | 70 | 72 | |
| Total revenue net of distribution and servicing expense and excluding money market fee waivers – Non-GAAP | \$899 | \$953 | \$927 | \$930 | \$947 | |
| Pre-tax operating margin (a) | 25 | % 16 | % 24 | % 24 | % 26 | % |
| Pre-tax operating margin, excluding amortization of intangible assets, money market fee waivers, the charge (recovery) related to investment management funds, net of incentives and net of distribution and servicing expense – Non-GAAP (a) | 34 | % 36 | % 33 | % 32 | % 34 | % |

(a) Income before taxes divided by total revenue.

53 BNY Mellon

Recent accounting and regulatory developments

Recently Issued Accounting Standards

ASU - 2015-02 - Consolidation (Topic 810): Amendments to the Consolidation Analysis

In February 2015, the FASB issued an ASU, “Consolidations (Topic 810): Amendments to the Consolidation Analysis”. This new ASU:

- Rescinds the indefinite deferral of FAS 167 for certain investment management funds therefore establishing one consolidation model;
- Eliminates the presumption that a general partner should consolidate a limited partnership;
- Clarifies that some fees paid to a decision maker, such as an asset manager, are excluded from the evaluation of the economics criterion when determining a variable interest entity’s (“VIEs”) primary beneficiary. This clarification puts greater emphasis on principal risk of loss when assessing consolidation risk;
- Amends the guidance for assessing how relationships of related parties affect the consolidation analysis of VIEs; and
- Scopes certain money market funds out of the consolidation guidance.

Based on our preliminary review of the new ASU, we do not expect to be required to consolidate a material amount of additional investment funds (e.g., mutual funds, hedge funds, mortgage real estate investment funds, private equity funds, and venture capital funds). In addition, we expect to deconsolidate substantially all of the CLOs we currently consolidate.

The final guidance is effective for reporting periods beginning after Dec. 15, 2015. Early adoption is permitted, including adoption in an interim period. BNY Mellon has not finalized assessing the impact of the new standard; however, it is our current intention to early adopt this ASU in the second quarter of 2015. The most significant estimated impact of adopting the new ASU would be a reduction in total assets and total liabilities and an increase in our regulatory capital ratios. Net income attributable to shareholders of The Bank of New York Mellon Corporation and total permanent equity are not expected to be significantly impacted.

ASU - 2014-11 - Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures

In June 2014, the FASB issued an ASU, “Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures,” which amends the accounting guidance for “repo-to-maturity” transactions and repurchase agreements executed as repurchase financings. This ASU requires public entities to apply the accounting changes and comply with the enhanced disclosure requirements for the first interim or annual reporting period beginning after Dec. 15, 2014. The impact of adopting this ASU did not have a material impact on our results of operations. For repurchase and securities lending transactions reported as secured borrowings, the ASU’s enhanced disclosures are effective for annual periods beginning after Dec. 15, 2014 and interim periods beginning after March 15, 2015.

ASU - 2014-09 - Revenue from Contracts with Customers

In May 2014, the FASB issued an ASU, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is expected to be effective for the Company on Jan. 1, 2018 with early adoption permitted no earlier than Jan. 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that this ASU will have on its consolidated financial statements and

related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Proposed Accounting Standards

Proposed ASU - Leases

In May 2013, the FASB and the IASB issued a revised proposed ASU on leases. The proposed ASU introduces new accounting models for both lessees and lessors, primarily to address concerns related to off-balance-sheet financing arrangements available to lessees under current guidance. The proposal would

BNY Mellon 54

require lessees to account for all leases on the balance sheet, except for certain short-term leases that have a maximum possible lease term of 12 months or less, including any options to renew. A lessee would recognize on its balance sheet (1) an asset for its right to use the underlying asset over the lease term and (2) a liability representing its obligation to make lease payments over the lease term. The income statement impact for lessees would depend on the nature of the underlying asset - that is, whether the underlying asset is property or an asset other than property - and the terms and conditions of the lease. The proposed ASU also introduces new accounting guidance for lessors. Lessors would account for leases under either the new receivable-and-residual approach or an approach similar to current operating-lease accounting. The appropriate approach to use would depend on the nature of the underlying asset - that is, whether the underlying asset is property or an asset other than property - and the terms and conditions of the lease. If finalized, the proposed ASU would converge the most significant aspects of the FASB's and IASB's accounting for lease contracts. In February 2015, FASB decided to require a modified retrospective method of adoption. An effective date is not expected before 2018.

Proposed ASU - Financial Instruments - Credit Losses

In December 2012, the FASB issued a proposed ASU, "Financial Instruments-Credit Losses." This proposed ASU would result in a single model to account for credit losses on financial assets. The proposal would remove the probable threshold for recognizing credit losses and require a current estimate of the expected contractual cash flows an entity does not expect to collect on financial assets that are not measured at fair value through the income statement. The proposal would also change current practice for recognizing OTTI and interest income on debt securities. In addition, the proposal would result in the recognition of an allowance for credit losses for nearly all types of debt instruments. The proposal would expand the credit quality disclosures to require information about changes in the factors that influence estimates of credit losses and the reasons for those changes. The FASB has decided on a current expected credit loss model for financial assets measured at amortized cost. Currently, the FASB is re-deliberating based on comments received. An effective date has not been determined.

Proposed ASU - Recognition and Measurement of Financial Assets and Financial Liabilities

In February 2013, the FASB issued a proposed ASU, "Recognition and Measurement of Financial Assets and Financial Liabilities." This proposed ASU would affect entities that hold financial assets and liabilities and would change the methodology related to recognition, classification, measurement and presentation of financial instruments. The scope of the proposed ASU would exclude instruments classified in shareholders' equity, share-based arrangements, pension plans, leases, guarantees and derivative instruments accounted under ASC 815, Derivatives and Hedging. Financial assets would be classified and measured based on the instrument's cash flow characteristics and an entity's business model for managing the instrument. Financial liabilities would generally be measured initially at their transaction price. The proposal includes three principal classification and measurement categories: (1) fair value for which all changes in fair value are recognized in net income; (2) fair value with qualifying changes in fair value recognized in other comprehensive income; and (3) amortized cost. This proposed ASU requires financial assets and liabilities to be presented separately on the balance sheet by measurement category. In addition, the fair value of financial assets and liabilities accounted for under amortized cost would be presented parenthetically on the balance sheet. In January 2014, the FASB tentatively decided not to continue to pursue the business model assessment approach for classification and measurement of financial assets. The FASB is currently re-deliberating based on the comments received and is expected to issue a final standard in mid-2015. An effective date is not expected before 2017.

IFRS

IFRS are a set of standards and interpretations adopted by the IASB. Commencing with the issuance of the "roadmap" in November 2008, the SEC has considered potential methods of incorporation of IFRS in the United States. The use of IFRS for U.S. companies with global operations would allow for streamlined reporting, easier access to foreign capital

markets and investments, and facilitate cross-border acquisitions, ventures or spin-offs.

55 BNY Mellon

In July 2012, the SEC staff released its final report on IFRS. This Final Report will be used by the SEC Commissioners to decide whether and, if so, when and how to incorporate IFRS into the financial reporting system for U.S. companies. It is not known when the SEC will make a final decision on the adoption of IFRS in the United States.

While the SEC decides whether IFRS will be required to be used in the preparation of our consolidated financial statements, a number of countries have mandated the use of IFRS by BNY Mellon's subsidiaries in their statutory reports filed in those countries. Such countries include Belgium, Brazil, the Netherlands, Australia, Hong Kong, Canada and South Korea.

Recent regulatory developments

For a summary of additional regulatory matters relevant to our operations, see "Supervision and regulation" in our 2014 Annual Report.

Enhanced Prudential Standards

Sections 165 and 166 of the Dodd-Frank Act direct the Federal Reserve to enact heightened prudential standards and early remediation requirements applicable to BHCs with total consolidated assets of \$50 billion or more, such as BNY Mellon, and certain designated nonbank financial companies (generally referred to as "SIFIs"). The Dodd-Frank Act mandates that the requirements applicable to SIFIs be more stringent than those applicable to other financial companies. In December 2011, the Federal Reserve issued for public comment a notice of proposed rulemaking, which we refer to as the "Proposed SIFI Rules," establishing enhanced prudential standards for:

- risk-based capital requirements and leverage limits;
- liquidity requirements;
- single-counterparty credit exposure limits;
- stress testing of capital;
- overall risk management requirements; and
- remedial actions that SIFIs must take during the early stages of financial distress if specified trigger events occur (referred to as the "early remediation provisions").

The rules addressing stress testing of capital were finalized and effective commencing with the

third quarter of 2013. In February 2014, the Federal Reserve adopted rules ("Final SIFI Rules") to implement the liquidity and risk management requirements of the Proposed SIFI Rules. These liquidity and risk management requirements became effective as of Jan. 1, 2015, and require BHCs with \$50 billion or more in total consolidated assets (including BNY Mellon) to comply with enhanced liquidity and overall risk management standards, including a buffer of highly liquid assets based on projected funding needs for 30 days, and increased involvement by boards of directors in liquidity and overall risk management. The liquidity buffer is in addition to the U.S. banking agencies' rules regarding the LCR and is described by the Federal Reserve as being "complementary" to those liquidity standards.

Liquidity Coverage Ratio

The Basel III framework requires banking organizations to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, will be required by regulation. One test, referred to as the LCR, is designed to ensure that certain banking organizations, including BNY Mellon, maintain a minimum amount of unencumbered HQLA sufficient to withstand the net cash outflow under a hypothetical standardized acute liquidity stress scenario for a 30-day time horizon. Since Jan. 1, 2015, covered companies, including BNY Mellon, The Bank of New York Mellon and BNY Mellon, N.A., have been required to meet an LCR of 80%, calculated monthly for a six month period, after

which the LCR must be calculated daily. The required minimum LCR level will increase annually by 10% increments until Jan. 1, 2017, at which time we will be required to meet an LCR of 100%. As of March 31, 2015, based on our current interpretation of the Final LCR Rule, we believe that we and our domestic bank subsidiaries are in compliance with applicable LCR requirements on a fully phased-in basis. For additional information on HQLA and the LCR, see “Liquidity and Dividends” beginning on page 35.

Capital Planning and Stress Testing

BNY Mellon’s capital distributions are subject to supervision and regulation by the Federal Reserve. The Comprehensive Capital Analysis and Review (“CCAR”) and the Dodd-Frank Act Stress Tests

BNY Mellon 56

("DFAST") are a major component of the Federal Reserve's oversight.

CCAR and the Federal Reserve's capital planning rules require BHCs with \$50 billion or more in total consolidated assets, including BNY Mellon, to submit annual capital plans to their Federal Reserve Bank. BNY Mellon and other covered BHCs may pay dividends, repurchase stock, and make other capital distributions only in accordance with a capital plan that has been reviewed by the Federal Reserve and to which the Federal Reserve has not objected. The Federal Reserve may object to a capital plan for quantitative or qualitative reasons, including if the covered BHC will not meet all minimum regulatory capital ratios and a 5% Tier 1 common ratio for each quarter throughout the nine-quarter planning horizon under stressed scenarios. We submitted our 2015 capital plan to the Federal Reserve in January 2015. On March 11, 2015, the Federal Reserve announced that it did not object to the BNY Mellon capital plan.

DFAST substantially overlaps with CCAR stress testing requirements. Under DFAST, BNY Mellon is required to undergo supervisory stress tests conducted by the Federal Reserve annually, and to conduct our own internal stress tests pursuant to regulatory requirements twice annually. The Federal Reserve published the 2015 DFAST results on March 5, 2015.

Proposed Fiduciary Duty Regulation

On April 14, 2015, the Department of Labor proposed a regulation defining the circumstances in which a person will be treated as a fiduciary under both the Employee Retirement Income Security Act of 1974 ("ERISA") and Section 4975 of the Internal Revenue Code by reason of providing investment advice to retirement plans and individual retirement accounts. The Company's analysis of this proposal is ongoing.

Website information

Our website is www.bnymellon.com. We currently make available the following information under the Investor Relations portion of our website. With respect to SEC filings, we post such information as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC.

All of our SEC filings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports, SEC Forms 3, 4 and 5 and any proxy statement mailed by us in connection with the solicitation of proxies;

- Financial statements and footnotes prepared using Extensible Business Reporting Language ("XBRL");
- Our earnings materials and selected management conference calls and presentations;
- Other regulatory disclosures, including: Pillar 3 Disclosures (and Market Risk Disclosure contained therein); Federal Financial Institutions Examination Council - Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices; Consolidated Financial Statements for Bank Holding Companies; and the Dodd-Frank Act Stress Test Results for BNY Mellon and The Bank of New York Mellon; and
- Our Corporate Governance Guidelines, Directors Code of Conduct and the Charters of the Audit, Finance, Corporate Governance and Nominating, Corporate Social Responsibility, Human Resources and Compensation, Risk and Technology Committees of our Board of Directors.

The contents of the website listed above or any other websites referenced herein are not incorporated into this Quarterly Report on Form 10-Q.

57 BNY Mellon

Item 1. Financial Statements

The Bank of New York Mellon Corporation (and its subsidiaries)

Consolidated Income Statement (unaudited)

| (in millions) | Quarter ended | | |
|--|-------------------|------------------|-------------------|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
| Fee and other revenue | | | |
| Investment services fees: | | | |
| Asset servicing | \$1,038 | \$1,019 | \$1,009 |
| Clearing services | 344 | 347 | 325 |
| Issuer services | 232 | 193 | 229 |
| Treasury services | 137 | 145 | 136 |
| Total investment services fees | 1,751 | 1,704 | 1,699 |
| Investment management and performance fees | 854 | 885 | 843 |
| Foreign exchange and other trading revenue | 229 | 151 | 136 |
| Distribution and servicing | 41 | 43 | 43 |
| Financing-related fees | 40 | 43 | 38 |
| Investment and other income | 63 | 78 | 102 |
| Total fee revenue | 2,978 | 2,904 | 2,861 |
| Net securities gains — including other-than-temporary impairment | 26 | 30 | 23 |
| Noncredit-related portion of other-than-temporary impairment (recognized in other comprehensive income) | 2 | (1 |)1 |
| Net securities gains | 24 | 31 | 22 |
| Total fee and other revenue | 3,002 | 2,935 | 2,883 |
| Operations of consolidated investment management funds | | | |
| Investment income | 189 | 101 | 138 |
| Interest of investment management fund note holders | 68 | 59 | 102 |
| Income from consolidated investment management funds | 121 | 42 | 36 |
| Net interest revenue | | | |
| Interest revenue | 807 | 802 | 812 |
| Interest expense | 79 | 90 | 84 |
| Net interest revenue | 728 | 712 | 728 |
| Provision for credit losses | 2 | 1 | (18 |
| Net interest revenue after provision for credit losses | 726 | 711 | 746 |
| Noninterest expense | | | |
| Staff | 1,485 | 1,418 | 1,511 |
| Professional, legal and other purchased services | 302 | 390 | 312 |
| Software | 158 | 160 | 152 |
| Net occupancy | 151 | 150 | 154 |
| Distribution and servicing | 98 | 102 | 107 |
| Furniture and equipment | 70 | 75 | 85 |
| Sub-custodian | 70 | 70 | 68 |
| Business development | 61 | 75 | 64 |
| Other | 242 | 211 | 223 |
| Amortization of intangible assets | 66 | 73 | 75 |
| Merger and integration, litigation and restructuring charges | (3 |)800 | (12 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | |
|--|-------|-------|--------|
| Total noninterest expense | 2,700 | 3,524 | 2,739 |
| Income | | | |
| Income before income taxes | 1,149 | 164 | 926 |
| Provision (benefit) for income taxes | 280 | (93) |)232 |
| Net income | 869 | 257 | 694 |
| Net (income) attributable to noncontrolling interests (includes \$(90), \$(24) and \$(20) related to consolidated investment management funds, respectively) | (90) |)(24 |)(20) |
| Net income applicable to shareholders of The Bank of New York Mellon Corporation | 779 | 233 | 674 |
| Preferred stock dividends | (13 |)(24 |)(13) |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation | \$766 | \$209 | \$661 |

BNY Mellon 58

The Bank of New York Mellon Corporation (and its subsidiaries)

Consolidated Income Statement (unaudited) (continued)

| Net income applicable to common shareholders of The Bank of New York Mellon Corporation used for the earnings per share calculation (in millions) | Quarter ended | | |
|--|----------------|---------------|----------------|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation | \$766 | \$209 | \$661 |
| Less: Earnings allocated to participating securities | 12 | 4 | 13 |
| Net income applicable to the common shareholders of The Bank of New York Mellon Corporation after required adjustment for the calculation of basic and diluted earnings per common share | \$754 | \$205 | \$648 |

| Average common shares and equivalents outstanding of The Bank of New York Mellon Corporation (in thousands) | Quarter ended | | |
|--|----------------|---------------|----------------|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
| Basic | 1,118,602 | 1,120,672 | 1,138,645 |
| Common stock equivalents | 18,667 | 21,067 | 20,435 |
| Less: Participating securities | (10,963) | (12,699) | (14,570) |
| Diluted | 1,126,306 | 1,129,040 | 1,144,510 |

| | | | |
|------------------------------|--------|--------|--------|
| Anti-dilutive securities (a) | 37,517 | 39,944 | 47,997 |
|------------------------------|--------|--------|--------|

| Earnings per share applicable to the common shareholders of The Bank of New York Mellon Corporation (b) (in dollars) | Quarter ended | | |
|---|----------------|---------------|----------------|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
| Basic | \$0.67 | \$0.18 | \$0.57 |
| Diluted | \$0.67 | \$0.18 | \$0.57 |

(a) Represents stock options, restricted stock, restricted stock units and participating securities outstanding but not included in the computation of diluted average common shares because their effect would be anti-dilutive.

(b) Basic and diluted earnings per share under the two-class method are determined on the net income applicable to common shareholders of The Bank of New York Mellon Corporation reported on the income statement less earnings allocated to participating securities, and the change in the excess of redeemable value over the fair value of noncontrolling interests, if applicable.

See accompanying Notes to Consolidated Financial Statements.

The Bank of New York Mellon Corporation (and its subsidiaries)

Consolidated Comprehensive Income Statement (unaudited)

| (in millions) | Quarter ended | | |
|---|----------------|---------------|----------------|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
| Net income | \$869 | \$257 | \$694 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustments | (713) | (331) | 37 |
| Unrealized gain (loss) on assets available-for-sale: | | | |
| Unrealized gain (loss) arising during the period | 134 | 37 | 162 |
| Reclassification adjustment | (15) | (18) | (13) |
| Total unrealized gain (loss) on assets available-for-sale | 119 | 19 | 149 |
| Defined benefit plans: | | | |
| Prior service cost arising during the period | — | 2 | — |
| Net gain (loss) arising during the period | (109) | (479) | — |
| Foreign exchange adjustment | — | (1) | — |
| Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost | 5 | 22 | 19 |
| Total defined benefit plans | (104) | (456) | 19 |
| Net unrealized gain (loss) on cash flow hedges | (1) | (2) | 1 |
| Total other comprehensive income (loss), net of tax (a) | (699) | (770) | 206 |
| Net (income) attributable to noncontrolling interests | (90) | (24) | (20) |
| Other comprehensive (income) loss attributable to noncontrolling interests | 151 | 52 | (3) |
| Net comprehensive income (loss) | \$231 | \$(485) | \$877 |

Other comprehensive income (loss) attributable to The Bank of New York Mellon Corporation shareholders was (a) \$(548) million for the quarter ended March 31, 2015, \$(718) million for the quarter ended Dec. 31, 2014 and \$203 million for the quarter ended March 31, 2014.

See accompanying Notes to Consolidated Financial Statements.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

The Bank of New York Mellon Corporation (and its subsidiaries)

Consolidated Balance Sheet (unaudited)

| | March 31, 2015 | Dec. 31, 2014 |
|--|-------------------|------------------|
| (dollars in millions, except per share amounts) | | |
| Assets | | |
| Cash and due from: | | |
| Banks | \$7,167 | \$6,970 |
| Interest-bearing deposits with the Federal Reserve and other central banks | 89,704 | 96,682 |
| Interest-bearing deposits with banks | 18,937 | 19,495 |
| Federal funds sold and securities purchased under resale agreements | 28,268 | 20,302 |
| Securities: | | |
| Held-to-maturity (fair value of \$41,676 and \$21,127) | 41,237 | 20,933 |
| Available-for-sale | 87,717 | 98,330 |
| Total securities | 128,954 | 119,263 |
| Trading assets | 9,505 | 9,881 |
| Loans (includes \$140 and \$21, at fair value) | 62,326 | 59,132 |
| Allowance for loan losses | (190) | (191) |
| Net loans | 62,136 | 58,941 |
| Premises and equipment | 1,410 | 1,394 |
| Accrued interest receivable | 557 | 607 |
| Goodwill | 17,663 | 17,869 |
| Intangible assets | 4,047 | 4,127 |
| Other assets (includes \$2,223 and \$1,916, at fair value) | 22,315 | 20,490 |
| Subtotal assets of operations | 390,663 | 376,021 |
| Assets of consolidated investment management funds, at fair value: | | |
| Trading assets | 7,852 | 8,678 |
| Other assets | 573 | 604 |
| Subtotal assets of consolidated investment management funds, at fair value | 8,425 | 9,282 |
| Total assets | \$399,088 | \$385,303 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing (principally U.S. offices) | \$111,622 | \$104,240 |
| Interest-bearing deposits in U.S. offices | 60,624 | 53,236 |
| Interest-bearing deposits in Non-U.S. offices | 109,013 | 108,393 |
| Total deposits | 281,259 | 265,869 |
| Federal funds purchased and securities sold under repurchase agreements | 7,919 | 11,469 |
| Trading liabilities | 7,342 | 7,434 |
| Payables to customers and broker-dealers | 21,959 | 21,181 |
| Commercial paper | — | — |
| Other borrowed funds | 869 | 786 |
| Accrued taxes and other expenses | 6,258 | 6,903 |
| Other liabilities (including allowance for lending-related commitments of \$93 and \$89, also includes \$612 and \$451, at fair value) | 7,581 | 5,025 |
| Long-term debt (includes \$355 and \$347, at fair value) | 20,401 | 20,264 |
| Subtotal liabilities of operations | 353,588 | 338,931 |
| Liabilities of consolidated investment management funds, at fair value: | | |
| Trading liabilities | 6,584 | 7,660 |
| Other liabilities | 36 | 9 |
| Subtotal liabilities of consolidated investment management funds, at fair value | 6,620 | 7,669 |
| Total liabilities | 360,208 | 346,600 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | |
|---|-----------|-----------|
| Temporary equity | | |
| Redeemable noncontrolling interests | 215 | 229 |
| Permanent equity | | |
| Preferred stock – par value \$0.01 per share; authorized 100,000,000 shares; issued 15,826 and 15,826 shares | 1,562 | 1,562 |
| Common stock – par value \$0.01 per share; authorized 3,500,000,000 shares; issued 1,303,799,499 and 1,290,222,821 shares | 13 | 13 |
| Additional paid-in capital | 24,887 | 24,626 |
| Retained earnings | 18,257 | 17,683 |
| Accumulated other comprehensive loss, net of tax | (2,182) | (1,634) |
| Less: Treasury stock of 182,287,827 and 171,995,262 common shares, at cost | (5,209) | (4,809) |
| Total The Bank of New York Mellon Corporation shareholders' equity | 37,328 | 37,441 |
| Nonredeemable noncontrolling interests of consolidated investment management funds | 1,337 | 1,033 |
| Total permanent equity | 38,665 | 38,474 |
| Total liabilities, temporary equity and permanent equity | \$399,088 | \$385,303 |

See accompanying Notes to Consolidated Financial Statements.

61 BNY Mellon

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

The Bank of New York Mellon Corporation (and its subsidiaries)

Consolidated Statement of Cash Flows (unaudited)

| (in millions) | Three months ended March 31, | |
|--|---------------------------------|-----------|
| | 2015 | 2014 |
| Operating activities | | |
| Net income | \$869 | \$694 |
| Net (income) attributable to noncontrolling interests | (90) |)(20) |
| Net income applicable to shareholders of The Bank of New York Mellon Corporation | 779 | 674 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | |
| Provision for credit losses | 2 | (18) |
| Pension plan contributions | (13) |)(12) |
| Depreciation and amortization | 340 | 333 |
| Deferred tax (benefit) | (107) |)(52) |
| Net securities (gains) and venture capital (income) | (21) |)(27) |
| Change in trading activities | 283 | 229 |
| Change in accruals and other, net | (1,327) |)(2,182) |
| Net cash (used for) operating activities | (64) |)(1,055) |
| Investing activities | | |
| Change in interest-bearing deposits with banks | 440 | (7,633) |
| Change in interest-bearing deposits with the Federal Reserve and other central banks | 6,978 | 21,757 |
| Purchases of securities held-to-maturity | (10,575) |)(4) |
| Paydowns of securities held-to-maturity | 483 | 415 |
| Maturities of securities held-to-maturity | 3 | 8 |
| Purchases of securities available-for-sale | (11,759) |)(12,499) |
| Sales of securities available-for-sale | 8,679 | 8,091 |
| Paydowns of securities available-for-sale | 2,008 | 1,755 |
| Maturities of securities available-for-sale | 3,803 | 1,362 |
| Net change in loans | (3,333) |)(2,539) |
| Sales of loans and other real estate | 98 | 204 |
| Change in federal funds sold and securities purchased under resale agreements | (7,965) |)(3,062) |
| Change in seed capital investments | 13 | (176) |
| Purchases of premises and equipment/capitalized software | (162) |)(201) |
| Acquisitions, net of cash | (9) |)(1) |
| Other, net | 995 | (76) |
| Net cash (used for) provided by investing activities | (10,303) |)7,401 |
| Financing activities | | |
| Change in deposits | 13,456 | (8,910) |
| Change in federal funds purchased and securities sold under repurchase agreements | (3,550) |)287 |
| Change in payables to customers and broker-dealers | 778 | 1,115 |
| Change in other borrowed funds | 6 | 642 |
| Change in commercial paper | — | (69) |
| Net proceeds from the issuance of long-term debt | 1,993 | 1,445 |
| Repayments of long-term debt | (2,005) |)(704) |
| Proceeds from the exercise of stock options | 81 | 51 |
| Issuance of common stock | 6 | 6 |
| Treasury stock acquired | (400) |)(375) |
| Common cash dividends paid | (192) |)(173) |
| Preferred cash dividends paid | (13) |)(13) |
| Other, net | 427 | (19) |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | |
|--|---------|---------|---|
| Net cash provided by (used for) financing activities | 10,587 | (6,717 |) |
| Effect of exchange rate changes on cash | (23 |)3 | |
| Change in cash and due from banks | | | |
| Change in cash and due from banks | 197 | (368 |) |
| Cash and due from banks at beginning of period | 6,970 | 6,460 | |
| Cash and due from banks at end of period | \$7,167 | \$6,092 | |
| Supplemental disclosures | | | |
| Interest paid | \$134 | \$97 | |
| Income taxes paid | 538 | 74 | |
| Income taxes refunded | 869 | 5 | |

See accompanying Notes to Consolidated Financial Statements.

BNY Mellon 62

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

The Bank of New York Mellon Corporation (and its subsidiaries)

Consolidated Statement of Changes in Equity (unaudited)

| (in millions, except per share amounts) | The Bank of New York Mellon Corporation shareholders | | | | | | | Non- | Total permanent equity | Redeemable non-controlling interests/ temporary equity |
|---|--|--------------|----------------------------|-------------------|---|----------------|---|-----------|------------------------|--|
| | Preferred stock | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss), net of tax | Treasury stock | redeemable noncontrolling interests of consolidated investment management funds | | | |
| Balance at Dec. 31, 2014 | \$ 1,562 | \$ 13 | \$ 24,626 | \$ 17,683 | \$ (1,634) | \$ (4,809) | \$ 1,033 | \$ 38,474 | (a) \$ 229 | |
| Shares issued to shareholders of noncontrolling interests | — | — | — | — | — | — | — | — | 15 | |
| Redemption of subsidiary shares from noncontrolling interests | — | — | — | — | — | — | — | — | (45) | |
| Other net changes in noncontrolling interests | — | — | (27) | — | — | — | 354 | 327 | 27 | |
| Net income | — | — | — | 779 | — | — | 90 | 869 | — | |
| Other comprehensive income (loss) | — | — | — | — | (548) | — | (140) | (688) | (11) | |
| Dividends: | | | | | | | | | | |
| Common stock at \$0.17 per share | — | — | — | (192) | — | — | — | (192) | — | |
| Preferred stock | — | — | — | (13) | — | — | — | (13) | — | |
| Repurchase of common stock | — | — | — | — | — | (400) | — | (400) | — | |
| Common stock issued under: | | | | | | | | | | |
| Employee benefit plans | — | — | 7 | — | — | — | — | 7 | — | |
| Direct stock purchase and dividend reinvestment plan | — | — | 5 | — | — | — | — | 5 | — | |
| Stock awards and options exercised | — | — | 276 | — | — | — | — | 276 | — | |
| Balance at March 31, 2015 | \$ 1,562 | \$ 13 | \$ 24,887 | \$ 18,257 | \$ (2,182) | \$ (5,209) | \$ 1,337 | \$ 38,665 | (a) \$ 215 | |

(a) Includes total The Bank of New York Mellon Corporation common shareholders' equity of \$35,879 million at Dec. 31, 2014 and \$35,766 million at March 31, 2015.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1 - Basis of presentation

Basis of presentation

The accounting and financial reporting policies of BNY Mellon, a global financial services company, conform to U.S. generally accepted accounting principles (“GAAP”) and prevailing industry practices.

The accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods have been made. These financial statements should be read in conjunction with BNY Mellon’s Annual Report on Form 10-K for the year ended Dec. 31, 2014. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with current period presentation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates based upon assumptions about future economic and market conditions which affect reported amounts and related disclosures in our financial statements. Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Amounts subject to estimates are items such as the allowance for loan losses and lending-related commitments, the fair value of financial instruments and other-than-temporary impairments, goodwill and intangible assets and pension accounting. Among other effects, such changes in estimates could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending-related commitments as well as changes in pension and post-retirement expense.

Note 2 - Acquisitions and dispositions

We sometimes structure our acquisitions with both an initial payment and later contingent payments tied to post-closing revenue or income growth. There were no contingent payments in the first quarter of 2015.

At March 31, 2015, we are potentially obligated to pay additional consideration that could amount to \$4 million over the next 1 year for our acquired companies, based on contractual agreements. The acquisitions and dispositions described below did not have a material impact on BNY Mellon’s results of operations.

Acquisitions in 2015

On Jan. 2, 2015, BNY Mellon acquired Cutwater Asset Management, a U.S.-based fixed income and solutions specialist with approximately \$23 billion in assets under management.

Acquisitions in 2014

On May 1, 2014, BNY Mellon acquired the remaining 65% interest of HedgeMark International, LLC for \$26 million. Since 2011, BNY Mellon held a 35% ownership stake in HedgeMark. Goodwill related to this acquisition totaled \$47 million and is included in the Investment Services business. The customer relationship intangible asset related to this

acquisition is included in our Investment Services business and totaled \$1 million at acquisition.

Dispositions in 2014

On April 23, 2014, BNY Mellon sold the subsidiary that conducts corporate trust business in Mexico that was part of our Investment Services business, for \$65 million. As a result of this sale, we recorded an after-tax gain of \$4 million. In addition, goodwill of \$8 million and customer relationship intangible assets of \$1 million were removed from the balance sheet as a result of this sale.

BNY Mellon 64

Notes to Consolidated Financial Statements (continued)

Note 3 - Securities

The following tables present the amortized cost, the gross unrealized gains and losses and the fair value of securities at March 31, 2015 and Dec. 31, 2014.

| Securities at March 31, 2015 (in millions) | Amortized cost | Gross unrealized Gains | Losses | Fair value |
|--|----------------|------------------------------|--------|------------|
| Available-for-sale: | | | | |
| U.S. Treasury | \$18,042 | \$548 | \$4 | \$18,586 |
| U.S. Government agencies | 383 | 2 | — | 385 |
| State and political subdivisions | 5,053 | 106 | 20 | 5,139 |
| Agency RMBS | 25,029 | 445 | 291 | 25,183 |
| Non-agency RMBS | 908 | 36 | 24 | 920 |
| Other RMBS | 1,382 | 23 | 19 | 1,386 |
| Commercial MBS | 1,812 | 44 | 5 | 1,851 |
| Agency commercial MBS | 3,728 | 64 | 7 | 3,785 |
| Asset-backed CLOs | 2,250 | 9 | 1 | 2,258 |
| Other asset-backed securities | 3,398 | 6 | 4 | 3,400 |
| Foreign covered bonds | 2,732 | 76 | — | 2,808 |
| Corporate bonds | 1,695 | 52 | 2 | 1,745 |
| Sovereign debt/sovereign guaranteed | 14,988 | 258 | 3 | 15,243 |
| Other debt securities | 2,057 | 11 | — | 2,068 |
| Equity securities | 91 | 1 | — | 92 |
| Money market funds | 730 | — | — | 730 |
| Non-agency RMBS (a) | 1,699 | 442 | 3 | 2,138 |
| Total securities available-for-sale (b) | \$85,977 | \$2,123 | \$383 | \$87,717 |
| Held-to-maturity: | | | | |
| U.S. Treasury | 10,372 | 92 | 2 | 10,462 |
| U.S. Government agencies | 1,168 | 1 | — | 1,169 |
| State and political subdivisions | 21 | — | 1 | 20 |
| Agency RMBS | 25,606 | 326 | 14 | 25,918 |
| Non-agency RMBS | 144 | 8 | 2 | 150 |
| Other RMBS | 267 | 3 | 9 | 261 |
| Commercial MBS | 11 | — | — | 11 |
| Agency commercial MBS | 359 | 4 | — | 363 |
| Sovereign debt/sovereign guaranteed | 3,289 | 33 | — | 3,322 |
| Total securities held-to-maturity | \$41,237 | \$467 | \$28 | \$41,676 |
| Total securities | \$127,214 | \$2,590 | \$411 | \$129,393 |

(a) Previously included in the Grantor Trust. The Grantor Trust was dissolved in 2011.

(b) Includes gross unrealized gains of \$101 million and gross unrealized losses of \$296 million recorded in accumulated other comprehensive income related to investment securities that were transferred from available-for-sale to held-to-maturity. The unrealized gains and losses primarily related to Agency RMBS and will be amortized into net interest revenue over the estimated lives of the securities.

| Securities at | Amortized cost | Gross | Fair value |
|---------------|----------------|-------|------------|
|---------------|----------------|-------|------------|

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| Dec. 31, 2014 (in millions) | | unrealized Gains | Losses | |
|---|-----------|---------------------|--------|-----------|
| Available-for-sale: | | | | |
| U.S. Treasury | \$19,592 | \$420 | \$15 | \$19,997 |
| U.S. Government agencies | 342 | 3 | 2 | 343 |
| State and political subdivisions | 5,176 | 95 | 24 | 5,247 |
| Agency RMBS | 32,568 | 357 | 325 | 32,600 |
| Non-agency RMBS | 942 | 37 | 26 | 953 |
| Other RMBS | 1,551 | 25 | 25 | 1,551 |
| Commercial MBS | 1,927 | 39 | 7 | 1,959 |
| Agency commercial MBS | 3,105 | 36 | 9 | 3,132 |
| Asset-backed CLOs | 2,128 | 9 | 7 | 2,130 |
| Other asset-backed securities | 3,241 | 5 | 6 | 3,240 |
| Foreign covered bonds | 2,788 | 80 | — | 2,868 |
| Corporate bonds | 1,747 | 45 | 7 | 1,785 |
| Sovereign debt/sovereign guaranteed | 17,062 | 224 | 2 | 17,284 |
| Other debt securities | 2,162 | 7 | — | 2,169 |
| Equity securities | 94 | 1 | — | 95 |
| Money market funds | 763 | — | — | 763 |
| Non-agency RMBS (a) | 1,747 | 471 | 4 | 2,214 |
| Total securities available-for-sale (b) | \$96,935 | \$1,854 | \$459 | \$98,330 |
| Held-to-maturity: | | | | |
| U.S. Treasury | 5,047 | 32 | 16 | 5,063 |
| U.S. Government agencies | 344 | — | 3 | 341 |
| State and political subdivisions | 24 | 1 | 1 | 24 |
| Agency RMBS | 14,006 | 200 | 44 | 14,162 |
| Non-agency RMBS | 153 | 9 | 2 | 160 |
| Other RMBS | 315 | 2 | 8 | 309 |
| Commercial MBS | 13 | — | — | 13 |
| Sovereign debt/sovereign guaranteed | 1,031 | 24 | — | 1,055 |
| Total securities held-to-maturity | \$20,933 | \$268 | \$74 | \$21,127 |
| Total securities | \$117,868 | \$2,122 | \$533 | \$119,457 |

(a) Previously included in the Grantor Trust. The Grantor Trust was dissolved in 2011.

(b) Includes gross unrealized gains of \$60 million and gross unrealized losses of \$282 million recorded in accumulated other comprehensive income related to investment securities that were transferred from available-for-sale to held-to-maturity. The unrealized gains and losses primarily related to Agency RMBS and will be amortized into net interest revenue over the estimated lives of the securities.

The following table presents the gross securities gains, losses and impairments.

| Net securities gains (losses) (in millions) | 1Q15 | 4Q14 | 1Q14 |
|--|------|------|------|
| Realized gross gains | \$25 | \$41 | \$30 |
| Realized gross losses | — | — | (3 |
| Recognized gross impairments | (1 |)(10 |)(5 |
| Total net securities gains | \$24 | \$31 | \$22 |

65 BNY Mellon

Notes to Consolidated Financial Statements (continued)

In the first quarter of 2015, Agency MBS, sovereign debt and U.S. Treasury securities with an aggregate amortized cost of \$11.6 billion and fair value of \$11.6 billion were transferred from available-for-sale securities to held-to-maturity securities. This action, in addition to realizing gains on the sales of securities, is expected to mute the impact to our accumulated other comprehensive income in the event of a rise in interest rates.

Temporarily impaired securities

At March 31, 2015, the unrealized losses on the investment securities portfolio were primarily attributable to an increase in interest rates from date of purchase to the date they were transferred to held-to-maturity. Specifically, \$296 million of the

unrealized losses at March 31, 2015 and \$282 million at Dec. 31, 2014 reflected in the available-for-sale sections of the tables below relate to certain securities (primarily Agency RMBS) that were transferred from available-for-sale to held-to-maturity. The unrealized losses will be amortized into net interest revenue over the estimated lives of the securities. The transfer created a new cost basis for the securities. As a result, if these securities have experienced unrealized losses since the date of transfer, the corresponding fair value and unrealized losses would be reflected in the held-to-maturity sections of the following tables. We do not intend to sell these securities and it is not more likely than not that we will have to sell these securities.

The following tables show the aggregate related fair value of investments with a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or more.

| Temporarily impaired securities at March 31, 2015 (in millions) | Less than 12 months | | 12 months or more | | Total | |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Available-for-sale: | | | | | | |
| U.S. Treasury | \$643 | \$4 | \$— | \$— | \$643 | \$4 |
| State and political subdivisions | 260 | 15 | 300 | 5 | 560 | 20 |
| Agency RMBS | 789 | 13 | 1,575 | 278 | 2,364 | 291 |
| Non-agency RMBS | 198 | 1 | 367 | 23 | 565 | 24 |
| Other RMBS | — | — | 392 | 19 | 392 | 19 |
| Commercial MBS | 123 | — | 221 | 5 | 344 | 5 |
| Agency commercial MBS | 853 | 3 | 410 | 4 | 1,263 | 7 |
| Asset-backed CLOs | 806 | 1 | — | — | 806 | 1 |
| Other asset-backed securities | 865 | 1 | 505 | 3 | 1,370 | 4 |
| Corporate bonds | 2 | — | 192 | 2 | 194 | 2 |
| Sovereign debt/sovereign guaranteed | 1,736 | 3 | — | — | 1,736 | 3 |
| Non-agency RMBS (a) | 54 | 1 | 34 | 2 | 88 | 3 |
| Total securities available-for-sale (b) | \$6,329 | \$42 | \$3,996 | \$341 | \$10,325 | \$383 |
| Held-to-maturity: | | | | | | |
| U.S. Treasury | \$1,316 | \$2 | \$198 | \$— | \$1,514 | \$2 |
| State and political subdivisions | 4 | 1 | — | — | 4 | 1 |
| Agency RMBS | 826 | 3 | 2,434 | 11 | 3,260 | 14 |
| Non-agency RMBS | 44 | — | 32 | 2 | 76 | 2 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | | | |
|---------------------------------------|---------|------|---------|-------|----------|-------|
| Other RMBS | — | — | 185 | 9 | 185 | 9 |
| Total securities held-to-maturity | \$2,190 | \$6 | \$2,849 | \$22 | \$5,039 | \$28 |
| Total temporarily impaired securities | \$8,519 | \$48 | \$6,845 | \$363 | \$15,364 | \$411 |

(a) Previously included in the Grantor Trust. The Grantor Trust was dissolved in 2011.

Includes gross unrealized losses for 12 months or more of \$296 million recorded in accumulated other comprehensive income related to investment securities that were transferred from available-for-sale to held-to-maturity. The unrealized losses primarily related to Agency RMBS and will be amortized into net interest revenue over the estimated lives of the securities.

BNY Mellon 66

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Notes to Consolidated Financial Statements (continued)

| Temporarily impaired securities at Dec. 31, 2014 (in millions) | Less than 12 months | | 12 months or more | | Total | |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Available-for-sale: | | | | | | |
| U.S. Treasury | \$6,049 | \$15 | \$— | \$— | \$6,049 | \$15 |
| U.S. Government agencies | 32 | — | 100 | 2 | 132 | 2 |
| State and political subdivisions | 410 | 18 | 393 | 6 | 803 | 24 |
| Agency RMBS | 3,385 | 13 | 5,016 | 312 | 8,401 | 325 |
| Non-agency RMBS | 143 | 1 | 382 | 25 | 525 | 26 |
| Other RMBS | — | — | 449 | 25 | 449 | 25 |
| Commercial MBS | 175 | 1 | 394 | 6 | 569 | 7 |
| Agency commercial MBS | 719 | 1 | 550 | 8 | 1,269 | 9 |
| Asset-backed CLOs | 1,376 | 7 | — | — | 1,376 | 7 |
| Other asset-backed securities | 1,078 | 2 | 539 | 4 | 1,617 | 6 |
| Corporate bonds | 51 | — | 230 | 7 | 281 | 7 |
| Sovereign debt/sovereign guaranteed | 2,175 | 2 | — | — | 2,175 | 2 |
| Non-agency RMBS (a) | 42 | 1 | 34 | 3 | 76 | 4 |
| Total securities available-for-sale (b) | \$15,635 | \$61 | \$8,087 | \$398 | \$23,722 | \$459 |
| Held-to-maturity: | | | | | | |
| U.S. Treasury | \$1,066 | \$6 | \$1,559 | \$10 | \$2,625 | \$16 |
| U.S. Government agencies | — | — | 340 | 3 | 340 | 3 |
| State and political subdivisions | 5 | 1 | — | — | 5 | 1 |
| Agency RMBS | 551 | 3 | 3,808 | 41 | 4,359 | 44 |
| Non-agency RMBS | 40 | — | 33 | 2 | 73 | 2 |
| Other RMBS | — | — | 219 | 8 | 219 | 8 |
| Total securities held-to-maturity | \$1,662 | \$10 | \$5,959 | \$64 | \$7,621 | \$74 |
| Total temporarily impaired securities | \$17,297 | \$71 | \$14,046 | \$462 | \$31,343 | \$533 |

(a) Previously included in the Grantor Trust. The Grantor Trust was dissolved in 2011.

(b) Includes gross unrealized losses for 12 months or more of \$282 million recorded in accumulated other comprehensive income related to investment securities that were transferred from available-for-sale to held-to-maturity. The unrealized losses primarily related to Agency RMBS and will be amortized into net interest revenue over the estimated lives of the securities.

The following table shows the maturity distribution by carrying amount and yield (on a tax equivalent basis) of our investment securities portfolio at March 31, 2015.

| Maturity distribution and yield on investment securities at March 31, 2015 (dollars in millions) | U.S. Treasury | | U.S. Government agencies | | State and political subdivisions | | Other bonds, notes and debentures | | Mortgage/asset-backed and equity securities | | Total |
|---|---------------|-----------|--------------------------|-----------|----------------------------------|-----------|-----------------------------------|-----------|---|-----------|---------|
| | Amount | Yield (a) | Amount | Yield (a) | Amount | Yield (a) | Amount | Yield (a) | Amount | Yield (a) | |
| One year or less | \$1,759 | 0.95 | % \$126 | 1.86 | % \$462 | 1.40 | % \$7,208 | 0.58 | % \$— | — | % \$9,3 |
| | 10,914 | 0.89 | 259 | 1.66 | 2,938 | 2.26 | 11,783 | 1.03 | — | — | 25,8 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | | | | | | | | | |
|------------------------------|----------|------|-----------|------|-----------|------|------------|------|------------|------|------------|------|
| Over 1 through 5 years | | | | | | | | | | | | |
| Over 5 through 10 years | 2,223 | 2.52 | — | — | 1,506 | 3.80 | 2,608 | 2.19 | — | — | 6,332 | 2.69 |
| Over 10 years | 3,690 | 3.11 | — | — | 233 | 1.81 | 265 | 1.45 | — | — | 4,187 | 2.69 |
| Mortgage-backed securities | — | — | — | — | — | — | — | — | 35,263 | 2.69 | 35,263 | 2.69 |
| Asset-backed securities | — | — | — | — | — | — | — | — | 5,658 | 1.07 | 5,658 | 1.07 |
| Equity securities (b) | — | — | — | — | — | — | — | — | 822 | — | 822 | — |
| Total | \$18,586 | 1.53 | % \$385 | 1.73 | % \$5,139 | 2.62 | % \$21,864 | 1.02 | % \$41,743 | 2.42 | % \$87,332 | 2.42 |
| Securities held-to-maturity: | | | | | | | | | | | | |
| One year or less | \$150 | 0.28 | % \$— | — | % \$— | — | % \$1,461 | 0.24 | % \$— | — | % \$1,461 | 0.24 |
| Over 1 through 5 years | 7,760 | 1.07 | 968 | 1.05 | 1 | 7.32 | 1,323 | 0.58 | — | — | 10,044 | 1.07 |
| Over 5 through 10 years | 2,462 | 2.06 | 200 | 1.19 | 5 | 6.95 | 505 | 0.88 | — | — | 3,172 | 2.06 |
| Over 10 years | — | — | — | — | 15 | 3.77 | — | — | — | — | 15 | 3.77 |
| Mortgage-backed securities | — | — | — | — | — | — | — | — | 26,387 | 2.65 | 26,387 | 2.65 |
| Total | \$10,372 | 1.30 | % \$1,168 | 1.07 | % \$21 | 4.74 | % \$3,289 | 0.48 | % \$26,387 | 2.65 | % \$41,743 | 2.65 |

(a) Yields are based upon the amortized cost of securities.

(b) Includes money market funds.

Notes to Consolidated Financial Statements (continued)

Other-than-temporary impairment

We routinely conduct periodic reviews of all securities using economic models to identify and evaluate each investment security to determine whether OTTI has occurred. Various inputs to the economic models are used to determine if an unrealized loss on securities is other-than-temporary. For example, the most significant inputs related to non-agency RMBS are:

Default rate - the number of mortgage loans expected to go into default over the life of the transaction, which is driven by the roll rate of loans in each performance bucket that will ultimately migrate to default; and
Severity - the loss expected to be realized when a loan defaults.

To determine if an unrealized loss is other-than-temporary, we project total estimated defaults of the underlying assets (mortgages) and multiply that calculated amount by an estimate of realizable value upon sale of these assets in the marketplace (severity) in order to determine the projected collateral loss. In determining estimated default rate and severity assumptions, we review the performance of the underlying securities, industry studies, market forecasts, as well as our view of the economic outlook affecting collateral. We also evaluate the current credit enhancement underlying the bond to determine the impact on cash flows. If we determine that a given security will be subject to a write-down or loss, we record the expected credit loss as a charge to earnings.

The table below shows the projected weighted-average default rates and loss severities for the 2007, 2006 and late 2005 non-agency RMBS and the securities previously held in the Grantor Trust that we established in connection with the restructuring of our investment securities portfolio in 2009, at March 31, 2015 and Dec. 31, 2014.

Projected weighted-average default rates and loss severities

| | March 31, 2015 | | Dec. 31, 2014 | | | |
|----------|----------------|----------|---------------|----------|----------|---|
| | Default rate | Severity | Default rate | Severity | Severity | |
| Alt-A | 38 | % 58 | % 38 | % 58 | % 58 | % |
| Subprime | 54 | % 73 | % 55 | % 74 | % 74 | % |
| Prime | 24 | % 41 | % 23 | % 42 | % 42 | % |

The following table provides net pre-tax securities gains (losses) by type.

| Net securities gains (losses) (in millions) | 1Q15 | 4Q14 | 1Q14 | |
|--|------|------|------|---|
| U.S. Treasury | \$23 | \$13 | \$10 | |
| Non-agency RMBS | (1 |) 17 | (2 |) |
| Other | 2 | 1 | 14 | |
| Total net securities gains | \$24 | \$31 | \$22 | |

The following table reflects investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. The additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred. The deductions represent credit losses on securities that have been sold, are required to be sold, or for which it is our intention to sell.

Debt securities credit loss roll forward
(in millions)

| 1Q15 | 1Q14 |
|------|------|
|------|------|

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | |
|---|------|-------|
| Beginning balance as of Jan. 1 | \$93 | \$119 |
| Add: Initial OTTI credit losses | — | 2 |
| Subsequent OTTI credit losses | 1 | 3 |
| Less: Realized losses for securities sold | 2 | 18 |
| Ending balance as of March 31 | \$92 | \$106 |

Pledged assets

At March 31, 2015, BNY Mellon had pledged assets of \$104 billion, including \$86 billion pledged as collateral for potential borrowings at the Federal Reserve Discount Window. The components of the assets pledged at March 31, 2015 included \$92 billion of securities, \$6 billion of loans, \$3 billion of trading assets and \$3 billion of interest-bearing deposits with banks.

If there has been no borrowing at the Federal Reserve Discount Window, the Federal Reserve generally allows banks to freely move assets in and out of their pledged assets account to sell or repledge the assets for other purposes. BNY Mellon regularly moves assets in and out of its pledged asset account at the Federal Reserve.

At Dec. 31, 2014, BNY Mellon had pledged assets of \$99 billion, including \$74 billion pledged as collateral for potential borrowing at the Federal Reserve Discount Window. The components of the

Notes to Consolidated Financial Statements (continued)

assets pledged at Dec. 31, 2014 included \$90 billion of securities, \$6 billion of loans, \$2 billion of trading assets and \$1 billion of interest-bearing deposits with banks.

At March 31, 2015 and Dec. 31, 2014, pledged assets included \$8 billion and \$9 billion, respectively, for which the recipients were permitted to sell or repledge the assets delivered.

We also obtain securities as collateral including receipts under resale agreements, securities borrowed, derivative contracts and custody agreements on terms which permit us to sell or repledge the securities to others. At March 31, 2015 and Dec. 31, 2014, the market value of the securities received that can be sold or repledged was \$57 billion and \$47 billion, respectively. We routinely sell or repledge these securities through delivery to third parties. As of March 31, 2015 and Dec. 31, 2014, the market value of securities collateral sold or repledged was \$19 billion and \$19 billion, respectively.

Note 4 - Loans and asset quality

Loans

The table below provides the details of our loan portfolio and industry concentrations of credit risk at March 31, 2015 and Dec. 31, 2014.

| Loans (in millions) | March 31, 2015 | Dec. 31, 2014 |
|---------------------------------------|-------------------|---------------|
| Domestic: | | |
| Financial institutions | \$5,665 | \$5,603 |
| Commercial | 1,686 | 1,390 |
| Wealth management loans and mortgages | 11,547 | 11,095 |
| Commercial real estate | 3,021 | 2,524 |
| Lease financings | 1,197 | 1,282 |
| Other residential mortgages | 1,181 | 1,222 |
| Overdrafts | 1,513 | 1,348 |
| Other | 1,107 | 1,113 |
| Margin loans | 19,459 | 20,034 |
| Total domestic | 46,376 | 45,611 |
| Foreign: | | |
| Financial institutions | 9,002 | 7,716 |
| Commercial | 285 | 252 |
| Wealth management loans and mortgages | 102 | 89 |
| Commercial real estate | 41 | 6 |
| Lease financings | 893 | 889 |
| Other (primarily overdrafts) | 5,520 | 4,569 |
| Margin loans | 107 | — |
| Total foreign | 15,950 | 13,521 |
| Total loans (a) | \$62,326 | \$59,132 |

(a) Net of unearned income of \$843 million at March 31, 2015 and \$866 million at Dec. 31, 2014 primarily on domestic and foreign lease financings.

Our loan portfolio consists of three portfolio segments: commercial, lease financings and mortgages. We manage our portfolio at the class level which consists of six classes of financing receivables: commercial, commercial real estate, financial institutions, lease financings, wealth management loans and mortgages and other residential mortgages. The following tables are presented for each class of financing receivable, and provide additional information about our credit risks and the adequacy of our allowance for credit losses.

Notes to Consolidated Financial Statements (continued)

Allowance for credit losses

Transactions in the allowance for credit losses are summarized as follows:

Allowance for credit losses activity for the quarter ended March 31, 2015

| (in millions) | Commercial | Commercial real estate | Financial institution | Lease financing | Wealth management loans and mortgages | Other residential mortgages | All Other | Foreign | Total |
|---|------------|------------------------------|--------------------------|--------------------|--|-----------------------------------|--------------|----------|----------|
| Beginning balance | \$ 60 | \$ 50 | \$ 31 | \$ 32 | \$ 22 | \$ 41 | \$— | \$44 | \$280 |
| Charge-offs | — | — | — | — | — | — | — | — | — |
| Recoveries | — | — | — | — | — | 1 | — | — | 1 |
| Net (charge-offs) recoveries | — | — | — | — | — | 1 | — | — | 1 |
| Provision | 5 | 3 | 2 | (1) | (1) | (2) | — | (4) | (2) |
| Ending balance | \$ 65 | \$ 53 | \$ 33 | \$ 31 | \$ 21 | \$ 40 | \$— | \$40 | \$283 |
| Allowance for: | | | | | | | | | |
| Loan losses | \$ 20 | \$ 31 | \$ 19 | \$ 31 | \$ 16 | \$ 40 | \$— | \$33 | \$190 |
| Lending-related commitments | 45 | 22 | 14 | — | 5 | — | — | 7 | 93 |
| Individually evaluated for impairment: | | | | | | | | | |
| Loan balance | \$— | \$— | \$— | \$— | \$ 8 | \$— | \$— | \$— | \$ 8 |
| Allowance for loan losses | — | — | — | — | 1 | — | — | — | 1 |
| Collectively evaluated for impairment: | | | | | | | | | |
| Loan balance | \$ 1,686 | \$ 2,881 | \$ 5,665 | \$ 1,197 | \$ 11,539 | \$ 1,181 | \$22,079 (a) | \$15,950 | \$62,178 |
| Allowance for loan losses | 20 | 31 | 19 | 31 | 15 | 40 | — | 33 | 189 |

(a) Includes \$1,513 million of domestic overdrafts, \$19,459 million of margin loans and \$1,107 million of other loans at March 31, 2015.

Allowance for credit losses activity for the quarter ended Dec. 31, 2014

| (in millions) | Commercial | Commercial real estate | Financial institution | Lease financing | Wealth management loans and mortgages | Other residential mortgages | All Other | Foreign | Total |
|---------------------------------|------------|------------------------------|--------------------------|--------------------|--|-----------------------------------|--------------|---------|-------|
| Beginning balance | \$ 71 | \$ 47 | \$ 25 | \$ 34 | \$ 22 | \$ 48 | \$— | \$41 | \$288 |
| Charge-offs | (8) | (2) | — | — | (1) | — | — | — | (11) |
| Recoveries | — | — | 1 | — | 1 | — | — | — | 2 |
| Net (charge-offs) recoveries | (8) | (2) | 1 | — | — | — | — | — | (9) |
| Provision | (3) | 5 | 5 | (2) | — | (7) | — | 3 | 1 |
| Ending balance | \$ 60 | \$ 50 | \$ 31 | \$ 32 | \$ 22 | \$ 41 | \$— | \$44 | \$280 |
| Allowance for: | | | | | | | | | |
| Loan losses | \$ 17 | \$ 32 | \$ 17 | \$ 32 | \$ 17 | \$ 41 | \$— | \$35 | \$191 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | | | | | | |
|--|----------|----------|----------|----------|-----------|----------|-----------|---------------|-----------|
| Lending-related commitments | 43 | 18 | 14 | — | 5 | — | — | 9 | 89 |
| Individually evaluated for impairment: | | | | | | | | | |
| Loan balance | \$ — | \$ — | \$ — | \$ — | \$ 8 | \$ — | \$ — | \$ — | \$ 8 |
| Allowance for loan losses | — | — | — | — | 1 | — | — | — | 1 |
| Collectively evaluated for impairment: | | | | | | | | | |
| Loan balance | \$ 1,390 | \$ 2,503 | \$ 5,603 | \$ 1,282 | \$ 11,087 | \$ 1,222 | \$ 22,495 | (a) \$ 13,521 | \$ 59,103 |
| Allowance for loan losses | 17 | 32 | 17 | 32 | 16 | 41 | — | 35 | 190 |

(a) Includes \$1,348 million of domestic overdrafts, \$20,034 million of margin loans and \$1,113 million of other loans at Dec. 31, 2014.

Notes to Consolidated Financial Statements (continued)

Allowance for credit losses activity for the quarter ended March 31, 2014

| (in millions) | Commercial | Commercial real estate | Financial institutions | Lease financings | Wealth management loans and mortgages | Other residential mortgages | All Other | Foreign | Total |
|--|------------|------------------------|------------------------|------------------|---------------------------------------|-----------------------------|--------------|----------|----------|
| Beginning balance | \$ 83 | \$ 41 | \$ 49 | \$ 37 | \$ 24 | \$ 54 | \$— | \$56 | \$344 |
| Charge-offs | — | — | — | — | — | (1) | — | — | (1) |
| Recoveries | — | — | — | — | — | 1 | — | — | 1 |
| Net (charge-offs) | — | — | — | — | — | — | — | — | — |
| Provision | (4) | 1 | (1) | (2) | (1) | (4) | — | (7) | (18) |
| Ending balance | \$ 79 | \$ 42 | \$ 48 | \$ 35 | \$ 23 | \$ 50 | \$— | \$49 | \$326 |
| Allowance for: | | | | | | | | | |
| Loan losses | \$ 20 | \$ 23 | \$ 9 | \$ 35 | \$ 18 | \$ 50 | \$— | \$43 | \$198 |
| Lending-related commitments | 59 | 19 | 39 | — | 5 | — | — | 6 | 128 |
| Individually evaluated for impairment: | | | | | | | | | |
| Loan balance | \$ 13 | \$ 3 | \$— | \$— | \$ 10 | \$— | \$— | \$7 | \$33 |
| Allowance for loan losses | 3 | 1 | — | — | 2 | — | — | 2 | 8 |
| Collectively evaluated for impairment: | | | | | | | | | |
| Loan balance | \$ 1,741 | \$ 2,125 | \$ 4,492 | \$ 1,308 | \$ 9,912 | \$ 1,346 | \$18,296 (a) | \$14,783 | \$54,003 |
| Allowance for loan losses | 17 | 22 | 9 | 35 | 16 | 50 | — | 41 | 190 |

(a) Includes \$1,078 million of domestic overdrafts, \$16,430 million of margin loans and \$788 million of other loans at March 31, 2014.

Nonperforming assets

The table below presents the distribution of our nonperforming assets.

| Nonperforming assets (in millions) | March 31, 2015 | Dec. 31, 2014 |
|---------------------------------------|----------------|---------------|
| Nonperforming loans: | | |
| Domestic: | | |
| Other residential mortgages | \$ 111 | \$ 112 |
| Wealth management loans and mortgages | 12 | 12 |
| Commercial real estate | 1 | 1 |
| Total nonperforming loans | 124 | 125 |
| Other assets owned | 4 | 3 |
| Total nonperforming assets (a) | \$ 128 | \$ 128 |

(a) Loans of consolidated investment management funds are not part of BNY Mellon's loan portfolio. Included in the loans of consolidated investment management funds are nonperforming loans of \$73 million at March 31, 2015 and \$53 million at Dec. 31, 2014. These loans are recorded at fair value and therefore do not impact the provision for credit losses and allowance for loan losses, and accordingly are excluded from the nonperforming assets table

above.

At March 31, 2015, undrawn commitments to borrowers whose loans were classified as nonaccrual or reduced rate were not material.

Lost interest

| Lost interest (in millions) | 1Q15 | 4Q14 | 1Q14 |
|---|------|------|------|
| Amount by which interest income recognized on nonperforming loans exceeded reversals | \$— | \$— | \$— |
| Amount by which interest income would have increased if nonperforming loans at period-end had been performing for the entire period | \$2 | \$2 | \$2 |

71 BNY Mellon

Notes to Consolidated Financial Statements (continued)

Impaired loans

The tables below provide information about our impaired loans. We use the discounted cash flow method as the primary method for valuing impaired loans.

| Impaired loans (in millions) | Quarter ended | | | | | |
|---|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | March 31, 2015 | | Dec. 31, 2014 | | March 31, 2014 | |
| | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized |
| Impaired loans with an allowance: | | | | | | |
| Commercial | \$— | \$— | \$6 | \$— | \$14 | \$— |
| Commercial real estate | — | — | 1 | — | 3 | — |
| Financial institutions | — | — | — | — | — | — |
| Wealth management loans and mortgages | 6 | — | 7 | — | 9 | — |
| Foreign | — | — | — | — | 6 | — |
| Total impaired loans with an allowance | 6 | — | 14 | — | 32 | — |
| Impaired loans without an allowance: | | | | | | |
| Commercial | — | — | — | — | — | — |
| Commercial real estate | — | — | 1 | — | 1 | — |
| Financial institutions | — | — | — | — | — | — |
| Wealth management loans and mortgages | 2 | — | 2 | — | 2 | — |
| Total impaired loans without an allowance (a) | 2 | — | 3 | — | 3 | — |
| Total impaired loans | \$8 | \$— | \$17 | \$— | \$35 | \$— |

(a) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under the accounting standard related to impaired loans.

| Impaired loans (in millions) | March 31, 2015 | | | Dec. 31, 2014 | | |
|--|---------------------|--------------------------|-----------------------|---------------------|--------------------------|-----------------------|
| | Recorded investment | Unpaid principal balance | Related allowance (a) | Recorded investment | Unpaid principal balance | Related allowance (a) |
| Impaired loans with an allowance: | | | | | | |
| Commercial | \$— | \$— | \$— | \$— | \$— | \$— |
| Commercial real estate | — | 3 | — | — | — | — |
| Financial institutions | — | — | — | — | — | — |
| Wealth management loans and mortgages | 6 | 6 | 1 | 6 | 6 | 1 |
| Foreign | — | — | — | — | — | — |
| Total impaired loans with an allowance | 6 | 9 | 1 | 6 | 6 | 1 |
| Impaired loans without an allowance: | | | | | | |
| Commercial real estate | — | — | N/A | 1 | 3 | N/A |
| | 2 | 2 | N/A | 2 | 2 | N/A |

Wealth management loans and mortgages

| | | | | | | |
|---|-----|------|-----|-----|------|-----|
| Total impaired loans without an allowance (b) | 2 | 2 | N/A | 3 | 5 | N/A |
| Total impaired loans (c) | \$8 | \$11 | \$1 | \$9 | \$11 | \$1 |

(a) The allowance for impaired loans is included in the allowance for loan losses.

(b) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under the accounting standard related to impaired loans.

Excludes an aggregate of less than \$1 million of impaired loans in amounts individually less than \$1 million at both (c) March 31, 2015 and Dec. 31, 2014. The allowance for loan loss associated with these loans totaled less than \$1 million at both March 31, 2015 and Dec. 31, 2014.

Notes to Consolidated Financial Statements (continued)

Past due loans

The table below sets forth information about our past due loans.

| Past due loans and still accruing interest (in millions) | March 31, 2015 | | | Total past due | Dec. 31, 2014 | | | Total past due |
|---|---------------------|-------|-----|----------------|---------------------|-------|-----|----------------|
| | Days past due 30-59 | 60-89 | >90 | | Days past due 30-59 | 60-89 | >90 | |
| Domestic: | | | | | | | | |
| Financial institutions | \$6 | \$— | \$— | \$6 | \$— | \$— | \$— | \$— |
| Wealth management loans and mortgages | 48 | — | — | 48 | 45 | — | 1 | 46 |
| Commercial real estate | 43 | — | — | 43 | 79 | — | — | 79 |
| Other residential mortgages | 20 | 5 | 4 | 29 | 23 | 3 | 5 | 31 |
| Total domestic | 117 | 5 | 4 | 126 | 147 | 3 | 6 | 156 |
| Foreign: | | | | | | | | |
| Financial institutions (a) | 30 | 20 | — | 50 | — | — | — | — |
| Total past due loans | \$147 | \$25 | \$4 | \$176 | \$147 | \$3 | \$6 | \$156 |

(a) Substantially all of these past due loans have been repaid subsequent to March 31, 2015.

Troubled debt restructurings (“TDRs”)

A modified loan is considered a TDR if the debtor is experiencing financial difficulties and the creditor grants a concession to the debtor that would not otherwise be considered. A TDR may include a

transfer of real estate or other assets from the debtor to the creditor, or a modification of the term of the loan. Not all modified loans are considered TDRs.

The following table presents TDRs that occurred in the first quarter of 2015, fourth quarter of 2014 and first quarter of 2014.

| TDRs (dollars in millions) | 1Q15 | | | 4Q14 | | | 1Q14 | | |
|-------------------------------|---------------------|--|---|---------------------|--|---|---------------------|--|---|
| | Number of contracts | Outstanding recorded investment Pre-modification | Outstanding recorded investment Post-modification | Number of contracts | Outstanding recorded investment Pre-modification | Outstanding recorded investment Post-modification | Number of contracts | Outstanding recorded investment Pre-modification | Outstanding recorded investment Post-modification |
| Other residential mortgages | 19 | \$4 | \$ 4 | 22 | \$3 | \$ 4 | 31 | \$5 | \$ 5 |
| Foreign | — | — | — | — | — | — | 1 | 5 | 4 |
| Total TDRs | 19 | \$4 | \$ 4 | 22 | \$3 | \$ 4 | 32 | \$10 | \$ 9 |

Other residential mortgages

The modifications of the other residential mortgage loans in the first quarter of 2015, fourth quarter of 2014 and first quarter of 2014 consisted of reducing the stated interest rates and in certain cases, a forbearance of default and extending the maturity dates. The modified loans are primarily collateral dependent for which the value is based on the fair value of the collateral.

TDRs that subsequently defaulted

There were no residential mortgage loans that had been restructured in a TDR during the previous 12 months and have subsequently defaulted in the first quarter of 2015.

Credit quality indicators

Our credit strategy is to focus on investment grade names to support cross-selling opportunities and avoid single name/industry concentrations. Each customer is assigned an internal credit rating which is mapped to an external rating agency grade equivalent, if possible, based upon a number of dimensions which are continually evaluated and may change over time.

Notes to Consolidated Financial Statements (continued)

The following tables set forth information about credit quality indicators.

Commercial loan portfolio

Commercial loan portfolio – Credit risk profile by creditworthiness category

| (in millions) | Commercial | | Commercial real estate | | Financial institutions | |
|----------------------|-------------------|------------------|------------------------|------------------|------------------------|------------------|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2015 | Dec. 31, 2014 | March 31, 2015 | Dec. 31, 2014 |
| Investment grade | \$1,711 | \$1,381 | \$2,082 | \$1,641 | \$12,753 | \$11,576 |
| Non-investment grade | 260 | 261 | 980 | 889 | 1,914 | 1,743 |
| Total | \$1,971 | \$1,642 | \$3,062 | \$2,530 | \$14,667 | \$13,319 |

The commercial loan portfolio is divided into investment grade and non-investment grade categories based on rating criteria largely consistent with those of the public rating agencies. Each customer in the portfolio is assigned an internal credit rating. These internal credit ratings are generally consistent with the ratings categories of the public rating agencies. Customers with ratings consistent with BBB- (S&P)/Baa3 (Moody's) or better are considered to be investment grade. Those clients with ratings lower than this threshold are considered to be non-investment grade.

Wealth management loans and mortgages

Wealth management loans and mortgages – Credit risk profile by internally assigned grade

| (in millions) | March 31, 2015 | Dec. 31, 2014 |
|-----------------------------|-------------------|---------------|
| Wealth management loans: | | |
| Investment grade | \$5,848 | \$5,621 |
| Non-investment grade | 88 | 29 |
| Wealth management mortgages | 5,713 | 5,534 |
| Total | \$11,649 | \$11,184 |

Wealth management non-mortgage loans are not typically rated by external rating agencies. A majority of the wealth management loans are secured by the customers' investment management accounts or custody accounts. Eligible assets pledged for these loans are typically investment grade, fixed-income securities, equities and/or mutual funds. Internal ratings for this portion of the wealth management portfolio, therefore, would equate to investment grade external ratings. Wealth management loans are provided to select customers based on the pledge of other types of assets, including business assets, fixed assets or a modest amount of commercial real estate. For the loans collateralized by other assets, the credit quality of the obligor is carefully analyzed, but we do

not consider this portfolio of loans to be investment grade.

Credit quality indicators for wealth management mortgages are not correlated to external ratings. Wealth management mortgages are typically loans to high-net-worth individuals, which are secured primarily by residential property. These loans are primarily interest-only adjustable rate mortgages with a weighted-average loan-to-value ratio of 60% at origination. In the wealth management portfolio, less than 1% of the mortgages were past due at March 31, 2015.

At March 31, 2015, the wealth management mortgage portfolio consisted of the following geographic concentrations: California - 21%; New York - 20%; Massachusetts - 15%; Florida - 8%; and other - 36%.

Other residential mortgages

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans and totaled \$1,181 million at March 31, 2015 and \$1,222 million at Dec. 31, 2014. These loans are not typically correlated to external ratings. Included in this portfolio at March 31, 2015 are \$337 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are predominantly prime mortgage loans, with a small portion of Alt-A loans. As of March 31, 2015, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 76% at origination and 18% of the serviced loan balance was at least 60 days delinquent. The properties securing the prime and Alt-A mortgage loans were located (in order of concentration) in California, Florida, Virginia, the tri-state area (New York, New Jersey and Connecticut) and Maryland.

BNY Mellon 74

Notes to Consolidated Financial Statements (continued)

Overdrafts

Overdrafts primarily relate to custody and securities clearance clients and totaled \$6,993 million at March 31, 2015 and \$5,882 million at Dec. 31, 2014. Overdrafts occur on a daily basis in the custody and securities clearance business and are generally repaid within two business days.

Other loans

Other loans primarily includes loans to consumers that are fully collateralized with equities, mutual funds and fixed income securities.

Margin loans

We had \$19,566 million of secured margin loans on our balance sheet at March 31, 2015 compared with \$20,034 million at Dec. 31, 2014. Margin loans are collateralized with marketable securities and borrowers are required to maintain a daily collateral margin in excess of 100% of the value of the loan. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to margin loans.

Reverse repurchase agreements

Reverse repurchase agreements are transactions fully collateralized with high-quality liquid securities. These transactions carry minimal credit risk and therefore are not allocated an allowance for credit losses.

Note 5 - Goodwill and intangible assets

Impairment testing

Goodwill impairment testing is performed at least annually at the reporting unit level. Intangible assets not subject to amortization are tested annually for impairment or more often if events or circumstances indicate they may be impaired.

Goodwill

The tables below provide a breakdown of goodwill by business.

| | | | | |
|---------------------------------------|--------------------------|------------------------|-------|--------------|
| Goodwill by business (in millions) | Investment Management | Investment Services | Other | Consolidated |
| Balance at Dec. 31, 2014 | \$9,352 | \$8,467 | \$50 | \$17,869 |
| Acquisitions | 10 | — | — | 10 |
| Foreign currency translation | (109) | (107) | — | (216) |
| Balance at March 31, 2015 | \$9,253 | \$8,360 | \$50 | \$17,663 |
| Goodwill by business (in millions) | Investment Management | Investment Services | Other | Consolidated |
| Balance at Dec. 31, 2013 | \$9,473 | \$8,550 | \$50 | \$18,073 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | |
|------------------------------|---------|---------|------|----------|
| Foreign currency translation | 20 | 7 | — | 27 |
| Balance at March 31, 2014 | \$9,493 | \$8,557 | \$50 | \$18,100 |

Intangible assets

The tables below provide a breakdown of intangible assets by business.

| Intangible assets – net carrying amount by business (in millions) | Investment Management | Investment Services | Other | Consolidated |
|--|-----------------------|---------------------|-------|--------------|
| Balance at Dec. 31, 2014 | \$1,923 | \$1,355 | \$849 | \$4,127 |
| Acquisitions | 9 | — | — | 9 |
| Amortization | (25) | (41) | — | (66) |
| Foreign currency translation | (16) | (7) | — | (23) |
| Balance at March 31, 2015 | \$1,891 | \$1,307 | \$849 | \$4,047 |

75 BNY Mellon

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Notes to Consolidated Financial Statements (continued)

| Intangible assets – net carrying amount by business (in millions) | Investment Management | Investment Services | Other | Consolidated |
|--|-----------------------|---------------------|-------|--------------|
| Balance at Dec. 31, 2013 | \$2,065 | \$1,538 | \$849 | \$4,452 |
| Amortization | (31) | (44) | — | (75) |
| Foreign currency translation | 3 | — | — | 3 |
| Balance at March 31, 2014 | \$2,037 | \$1,494 | \$849 | \$4,380 |

The table below provides a breakdown of intangible assets by type.

| Intangible assets (in millions) | March 31, 2015 | | | Remaining weighted-average amortization period | Dec. 31, 2014 Net carrying amount |
|--|-----------------------|--------------------------|---------------------|--|--------------------------------------|
| | Gross carrying amount | Accumulated amortization | Net carrying amount | | |
| Subject to amortization: | | | | | |
| Customer relationships—Investment Management | \$1,733 | \$(1,292) | \$441 | 11 years | \$464 |
| Customer contracts—Investment Services | 2,314 | (1,386) | 928 | 11 years | 974 |
| Other | 75 | (63) | 12 | 4 years | 14 |
| Total subject to amortization | 4,122 | (2,741) | 1,381 | 11 years | 1,452 |
| Not subject to amortization: (a) | | | | | |
| Trade name | 1,358 | N/A | 1,358 | N/A | 1,360 |
| Customer relationships | 1,308 | N/A | 1,308 | N/A | 1,315 |
| Total not subject to amortization | 2,666 | N/A | 2,666 | N/A | 2,675 |
| Total intangible assets | \$6,788 | \$(2,741) | \$4,047 | N/A | \$4,127 |

(a) Intangible assets not subject to amortization have an indefinite life.

N/A - Not applicable.

Estimated annual amortization expense for current intangibles for the next five years is as follows:

| For the year ended Dec. 31, | Estimated amortization expense (in millions) |
|--------------------------------|---|
| 2015 | \$266 |
| 2016 | 240 |
| 2017 | 216 |
| 2018 | 181 |
| 2019 | 108 |

Note 6 - Other assets

| Other assets (in millions) | March 31, 2015 | Dec. 31, 2014 |
|-------------------------------------|-------------------|------------------|
| Corporate/bank owned life insurance | \$4,618 | \$4,598 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | |
|---|----------|----------|
| Accounts receivable | 4,534 | 4,166 |
| Fails to deliver | 3,189 | 1,351 |
| Equity in joint venture and other investments (a) | 3,170 | 3,287 |
| Income taxes receivable | 1,552 | 2,142 |
| Software | 1,332 | 1,332 |
| Fair value of hedging derivatives | 1,038 | 851 |
| Prepaid pension assets | 572 | 708 |
| Prepaid expenses | 478 | 451 |
| Due from customers on acceptances | 304 | 247 |
| Other | 1,528 | 1,357 |
| Total other assets | \$22,315 | \$20,490 |

(a) Includes Federal Reserve Bank stock of \$448 million and \$447 million, respectively, at cost.

BNY Mellon 76

Notes to Consolidated Financial Statements (continued)

Certain seed capital and private equity investments valued using net asset value per share

In our Investment Management business, we manage investment assets, including equities, fixed income, money market and alternative investment funds for institutions and other investors. As part of that activity we make seed capital investments in certain funds. BNY Mellon also holds private equity investments, which consist of investments in private equity funds, mezzanine financings, small business investment companies (“SBICs”) and direct equity investments. Seed capital and private equity

investments are included in other assets. Consistent with our policy to focus on our core activities, we continue to reduce our exposure to private equity investments that are not compliant with the Volcker Rule.

The fair value of certain of these investments has been estimated using the net asset value (“NAV”) per share of BNY Mellon’s ownership interest in the funds. The table below presents information about BNY Mellon’s investments in seed capital and private equity investments that have been valued using NAV.

Seed capital and private equity investments valued using NAV

| (dollar amounts in millions) | March 31, 2015 | | | | Dec. 31, 2014 | | | |
|-----------------------------------|----------------|----------------------|----------------------|--------------------------|---------------|----------------------|----------------------|--------------------------|
| | Fair value | Unfunded commitments | Redemption frequency | Redemption notice period | Fair value | Unfunded commitments | Redemption frequency | Redemption notice period |
| Seed capital and other funds (a) | \$292 | \$ — | Daily-quarterly | 0-180 days | \$307 | \$ — | Daily-quarterly | 0-180 days |
| Private equity investments (b)(c) | 27 | 56 | N/A | N/A | 35 | 45 | N/A | N/A |
| Total | \$319 | \$ 56 | | | \$342 | \$ 45 | | |

(a) Other funds include various leveraged loans, hedge funds and structured credit funds. Redemption notice periods vary by fund.

(b) Private equity funds primarily include numerous venture capital funds that invest in various sectors of the economy. Private equity funds do not have redemption rights. Distributions from such funds will be received as the underlying investments in the funds are liquidated.

(c) Includes investments and unfunded commitments related to SBICs, which are compliant with the Volcker Rule, of \$24 million and \$56 million, respectively, at March 31, 2015 and \$18 million and \$45 million, respectively, at Dec. 31, 2014.

N/A - Not applicable.

Qualified affordable housing project investments

We invest in affordable housing projects primarily to satisfy the company’s CRA requirements. Our total investment in qualified affordable housing projects totaled \$828 million at March 31, 2015 and \$853 million at Dec. 31, 2014. Commitments to fund future investments in qualified affordable housing projects totaled \$339 million at March 31, 2015 and \$358 million at Dec. 31, 2014. A summary of the commitments to fund future investments is as follows: 2015—\$135 million; 2016—\$110 million;

2017—\$82 million; 2018—\$2 million; 2019—\$1 million and 2020 and thereafter—\$9 million.

Tax credits and other tax benefits recognized were \$33 million in the first quarter of 2015, \$31 million in the first quarter of 2014 and \$34 million in the fourth quarter of 2014. Amortization expense included in the provision for

income taxes was \$24 million in the first quarter of 2015, \$24 million in the first quarter of 2014 and \$26 million in the fourth quarter of 2014.

77 BNY Mellon

Notes to Consolidated Financial Statements (continued)

Note 7 - Net interest revenue

The following table provides the components of net interest revenue presented on the consolidated income statement.

| Net interest revenue (in millions) | Quarter ended | | |
|---|-------------------|------------------|-------------------|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
| Interest revenue | | | |
| Non-margin loans | \$173 | \$178 | \$169 |
| Margin loans | 50 | 48 | 42 |
| Securities: | | | |
| Taxable | 439 | 417 | 405 |
| Exempt from federal income taxes | 22 | 22 | 27 |
| Total securities | 461 | 439 | 432 |
| Deposits with banks | 30 | 30 | 73 |
| Deposits with the Federal Reserve and other central banks | 45 | 55 | 46 |
| Federal funds sold and securities purchased under resale agreements | 30 | 26 | 17 |
| Trading assets | 18 | 26 | 33 |
| Total interest revenue | 807 | 802 | 812 |
| Interest expense | | | |
| Deposits | 15 | 13 | 22 |
| Federal funds purchased and securities sold under repurchase agreements | (3 |)(2 |)(4 |
| Trading liabilities | 2 | 4 | 8 |
| Other borrowed funds | 2 | 2 | 1 |
| Commercial paper | — | 1 | — |
| Customer payables | 2 | 3 | 2 |
| Long-term debt | 61 | 69 | 55 |
| Total interest expense | 79 | 90 | 84 |
| Net interest revenue | \$728 | \$712 | \$728 |

Note 8 - Employee benefit plans

The components of net periodic benefit cost are as follows.

| Net periodic benefit cost (credit) (in millions) | Quarter ended | | | | | |
|---|---------------------------------|--------------------------------|----------------------------|---------------------------------|--------------------------------|----------------------------|
| | March 31, 2015 | | | March 31, 2014 | | |
| | Domestic pension benefits | Foreign pension benefits | Health care benefits | Domestic pension benefits | Foreign pension benefits | Health care benefits |
| Service cost | \$15 | \$8 | \$1 | \$14 | \$9 | \$1 |
| Interest cost | 43 | 10 | 2 | 45 | 11 | 3 |
| Expected return on assets | (83 |)(13 |)(2 |)(79 |)(15 |)(2 |
| Curtailment (gain)/loss | (30 |)— | — | — | — | — |
| Other | 31 | 6 | — | 28 | 4 | — |
| Net periodic benefit cost (credit) | \$(24 |)\$11 | \$1 | \$8 | \$9 | \$2 |

Note 9 - Restructuring charges

Aggregate restructuring charges are included in M&I, litigation and restructuring charges on the income statement. Restructuring charges recorded in 2014 relate to corporate-level initiatives and were therefore recorded in the Other segment. Severance payments are primarily paid over the salary continuance period

in accordance with the separation plan. In the first quarter of 2015, we recorded total restructuring recoveries of \$4 million primarily related to severance.

BNY Mellon 78

Notes to Consolidated Financial Statements (continued)

Streamlining actions

In the second quarter of 2014, we disclosed streamlining actions which included rationalizing our staff and simplifying and automating global processes primarily related to actions taken across investment services, technology, and operations. The initial restructuring charge consisted of \$125 million of severance costs. In the first quarter of 2015, we recorded total restructuring recoveries of \$2 million primarily related to severance. The following table presents the activity in the reserve through March 31, 2015.

Streamlining actions 2014 – restructuring reserve activity

| (in millions) | Total | |
|-------------------------------|-------|---|
| Original restructuring charge | \$125 | |
| Net additional charges | 59 | |
| Utilization | (92 |) |
| Balance at Dec. 31, 2014 | \$92 | |
| Net additional (recoveries) | (2 |) |
| Utilization | (25 |) |
| Balance at March 31, 2015 | \$65 | |

The table below presents the restructuring charge if it had been allocated by business.

Streamlining actions 2014 – restructuring charge by business

| (in millions) | 1Q15 | 4Q14 | Total charges since inception |
|---|------|------|-------------------------------|
| Investment Management | \$— | \$1 | \$23 |
| Investment Services | 2 | (16 |)85 |
| Other segment (including Business Partners) | (4 |)21 | 74 |
| Total restructuring charge (recovery) | \$(2 |)\$6 | \$182 |

Operational Excellence Initiatives

In 2011, we announced our Operational Excellence Initiatives which include an expense reduction initiative impacting approximately 1,500 positions, as well as additional initiatives to transform operations, technology and corporate services that will increase productivity and reduce the growth rate of expenses. We recorded a pre-tax restructuring charge of \$107 million related to the Operational Excellence Initiatives in 2011. This charge consisted of \$78 million of severance costs and \$29 million primarily for operating lease-related items and consulting costs. In the first quarter of 2015, we recorded a recovery of \$2 million. The following table presents the activity

in the restructuring reserve related to the Operational Excellence Initiatives through March 31, 2015.

Operational Excellence Initiatives 2011 – restructuring reserve activity

| (in millions) | Severance | Other | Total | |
|--|-----------|-------|-------|---|
| Original restructuring charge | \$78 | \$29 | \$107 | |
| Net additional charges (net recovery/gain) | 93 | (57 |)36 | |
| Utilization | (143 |)28 | (115 |) |
| Balance at Dec. 31, 2014 | 28 | — | 28 | |
| Net additional (recoveries) | (2 |)— | (2 |) |
| Utilization | (4 |)— | (4 |) |

| | | | |
|---------------------------|------|-----|------|
| Balance at March 31, 2015 | \$22 | \$— | \$22 |
|---------------------------|------|-----|------|

The table below presents the restructuring charge if it had been allocated by business.

| Operational Excellence Initiatives 2011 – restructuring charge (recovery) by business (in millions) | 1Q15 | 4Q14 | Total charges since inception |
|--|------|-------|----------------------------------|
| Investment Management | \$— | \$1 | \$51 |
| Investment Services | — | (2 |)84 |
| Other segment (including Business Partners) | (2 |)5 |)6 |
| Total restructuring charge (recovery) | \$(2 |)\$(6 |)\$141 |

Note 10 - Income taxes

BNY Mellon recorded an income tax provision of \$280 million (24.4% effective tax rate) in the first quarter of 2015 and \$232 million (25.1% effective tax rate) in the first quarter of 2014. The effective tax rates primarily reflect the tax benefit from foreign operations, tax-exempt income and consolidated investment management funds.

Our total tax reserves as of March 31, 2015 were \$673 million compared with \$669 million at Dec. 31, 2014. If these tax reserves were unnecessary, \$673 million would affect the effective tax rate in future periods. We recognize accrued interest and penalties, if applicable, related to income taxes in income tax expense. Included in the balance sheet at March 31, 2015 is accrued interest, where applicable, of \$200 million. The additional tax expense related to interest for the three months ended March 31, 2015 was \$1 million compared with \$1 million for the three months ended March 31, 2014.

It is reasonably possible the total reserve for uncertain tax positions could decrease within the next 12

Notes to Consolidated Financial Statements (continued)

months by an amount up to \$38 million as a result of adjustments related to tax years that are still subject to examination.

On Nov. 10, 2009, BNY Mellon filed a petition with the U.S. Tax Court challenging the IRS's disallowance of certain foreign tax credits claimed for the 2001 and 2002 tax years. Trial was held from April 16 to May 17, 2012. On Feb. 11, 2013, BNY Mellon received an adverse decision from the U.S. Tax Court. On Sept. 23, 2013, the U.S. Tax Court amended its prior ruling to allow BNY Mellon an interest expense deduction and to exclude certain items from taxable income. The net impact of the court rulings for all years involved and related interest decreased after-tax income in 2013 by \$593 million.

The U.S. Tax Court ruling was finalized on Feb. 20, 2014. On March 5, 2014, BNY Mellon appealed the decision to the Second Circuit Court of Appeals. On Sept. 25, 2014, the government filed its response to our appeal. In addition to requesting that the denial of foreign tax credits be upheld, the government also requested a reversal of the interest deduction allowed by the Tax Court in the amended decision. If the interest deduction is ultimately disallowed, further income tax expense of approximately \$100 million may be required. See Note 17 of the Notes to Consolidated Financial Statements for additional information.

Our federal income tax returns are closed to examination through 2010. Our New York State and New York City income tax returns are closed to examination through 2010. Our UK income tax returns are closed to examination through 2012.

Note 11 - Securitizations and variable interest entities

BNY Mellon's VIEs generally include certain retail, institutional and alternative investment funds offered to its retail and institutional customers in which it acts as the fund's investment manager. BNY Mellon earns management fees on these funds as well as performance fees in certain funds. It may also provide start-up capital in its new funds. These VIEs are included in the scope of ASU 2010-10, which defers the application of ASU 2009-17 for certain investment funds, and are reviewed for consolidation based on the guidance in ASC 810, Consolidation.

BNY Mellon has other VIEs, including securitization trusts and CLOs, in which BNY Mellon serves as the investment manager. In addition, we provide trust and custody services for a fee to entities sponsored by other corporations in which we have no other interest. These VIEs are evaluated under the guidance included in ASU 2009-17. BNY Mellon has one securitization and several CLOs, which were assessed and consolidated in accordance with ASU 2009-17.

The following tables present the incremental assets and liabilities included in BNY Mellon's consolidated financial statements, after applying intercompany eliminations, as of March 31, 2015 and Dec. 31, 2014, based on the assessments performed in accordance with ASC 810 and ASU 2009-17. The net assets of any consolidated VIE are solely available to settle the liabilities of the VIE and to settle any investors' ownership liquidation requests, including any seed capital invested in the VIE by BNY Mellon.

Investments consolidated under ASC 810 and ASU 2009-17
at March 31, 2015

| (in millions) | Investment Management funds | Securitizations | Total consolidated investments |
|-------------------------------|-----------------------------------|-----------------|--------------------------------------|
| Available-for-sale securities | \$— | \$400 | \$400 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | |
|--|---------|-----|-------|---------|
| Trading assets | 7,852 | | — | 7,852 |
| Other assets | 573 | | — | 573 |
| Total assets | \$8,425 | (a) | \$400 | \$8,825 |
| Trading liabilities | \$6,584 | | \$— | \$6,584 |
| Other liabilities | 36 | | 355 | 391 |
| Total liabilities | \$6,620 | (a) | \$355 | \$6,975 |
| Nonredeemable noncontrolling interests | \$1,337 | (a) | \$— | \$1,337 |

(a) Includes voting interest entities with assets of \$809 million, liabilities of \$142 million and nonredeemable noncontrolling interests of \$479 million.

Investments consolidated under ASC 810 and ASU 2009-17
at Dec. 31, 2014

| (in millions) | Investment Management funds | | Securitizations | Total consolidated investments |
|--|-----------------------------------|-----|-----------------|--------------------------------------|
| Available-for-sale securities | \$— | | \$414 | \$414 |
| Trading assets | 8,678 | | — | 8,678 |
| Other assets | 604 | | — | 604 |
| Total assets | \$9,282 | (a) | \$414 | \$9,696 |
| Trading liabilities | \$7,660 | | \$— | \$7,660 |
| Other liabilities | 9 | | 363 | 372 |
| Total liabilities | \$7,669 | (a) | \$363 | \$8,032 |
| Nonredeemable noncontrolling interests | \$1,033 | (a) | \$— | \$1,033 |

(a) Includes voting interest entities with assets of \$855 million, liabilities of \$148 million and nonredeemable noncontrolling interests of \$544 million.

Notes to Consolidated Financial Statements (continued)

BNY Mellon is not contractually required to provide financial or any other support to any of our VIEs. Additionally, creditors of any consolidated VIEs do not have any recourse to the general credit of BNY Mellon.

Non-consolidated VIEs

As of March 31, 2015 and Dec. 31, 2014, the following assets related to the VIEs where BNY Mellon is not the primary beneficiary are included in our consolidated financial statements.

Non-consolidated VIEs at March 31, 2015

| (in millions) | Assets | Liabilities | Maximum loss exposure |
|---------------|--------|-------------|-----------------------|
| Other | \$ 119 | \$— | \$ 119 |

Non-consolidated VIEs at Dec. 31, 2014

| (in millions) | Assets | Liabilities | Maximum loss exposure |
|---------------|--------|-------------|-----------------------|
| Other | \$ 148 | \$— | \$ 148 |

The maximum loss exposure indicated in the above tables relates solely to BNY Mellon's seed capital or residual interests invested in the VIEs.

Note 12 - Preferred stock

BNY Mellon has 100 million authorized shares of preferred stock with a par value of \$0.01. The table below summarizes BNY Mellon's preferred stock issued and outstanding at March 31, 2015 and Dec. 31, 2014.

| Preferred stock summary (dollars in millions, unless otherwise noted) | Per annum dividend rate | Liquidation preference per share (in dollars) | Total shares issued and outstanding | | Carrying value (a) | |
|--|---|---|-------------------------------------|---------------|--------------------|---------------|
| | | | March 31, 2015 | Dec. 31, 2014 | March 31, 2015 | Dec. 31, 2014 |
| Series A Noncumulative Perpetual Preferred Stock | Greater of (i) three-month LIBOR plus 0.565% for the related distribution period; or (ii) 4.000% | \$ 100,000 | 5,001 | 5,001 | \$ 500 | \$ 500 |
| Series C Noncumulative Perpetual Preferred Stock | 5.2 | % \$ 100,000 | 5,825 | 5,825 | 568 | 568 |
| Series D Noncumulative Perpetual Preferred Stock | 4.50% commencing Dec. 20, 2013 to but excluding June 20, 2023, then a floating rate equal to the three-month LIBOR plus 2.46% | \$ 100,000 | 5,000 | 5,000 | 494 | 494 |
| Total | | | 15,826 | 15,826 | \$ 1,562 | \$ 1,562 |

(a) The carrying value of the Series C and Series D preferred stock is recorded net of issuance costs.

Holders of both the Series A and Series C preferred stock are entitled to receive dividends on each dividend payment date (March 20, June 20, September 20 and December 20 of each year), if declared by BNY Mellon's Board of Directors. Holders of the Series D preferred stock are entitled to receive dividends, if declared by our board of directors, on each June 20 and December 20, to but excluding June 20, 2023; and on each March 20, June 20, September 20 and December 20, from and including June 20, 2023. BNY Mellon's ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, shares of our common stock or any of our shares that rank junior to the preferred stock as to the payment of dividends and/or the distribution of any assets on any liquidation, dissolution or winding-up of BNY Mellon will be prohibited, subject to certain restrictions, in the event that we do not declare

and pay in full preferred dividends for the then current dividend period of the Series A preferred stock or the last preceding dividend period of the Series C and Series D preferred stock.

All of the outstanding shares of the Series A preferred stock are owned by Mellon Capital IV, which will pass through any dividend on the Series A preferred stock to the holders of its Normal Preferred Capital Securities. All of the outstanding shares of the Series C and Series D preferred stock are held by the depositary of the depositary shares, which will pass through the applicable portion of any dividend on the Series C and Series D preferred stock to the holders of record of their respective depositary shares.

On March 20, 2015, The Bank of New York Mellon Corporation paid the following dividends for the

81 BNY Mellon

Notes to Consolidated Financial Statements (continued)

noncumulative perpetual preferred stock for the dividend period ending in March 2015 to holders of record as of the close of business on March 5, 2015:

\$977.78 per share on the Series A Preferred Stock (equivalent to \$9.7778 per Normal Preferred Capital Security of Mellon Capital IV, each representing 1/100th interest in a share of Series A Preferred Stock); and \$1,300.00 per share on the Series C Preferred Stock (equivalent to \$0.3250 per depositary share, each representing a 1/4,000th interest in a share of the Series C Preferred Stock).

The preferred stock is not subject to the operation of a sinking fund and is not convertible into, or exchangeable for, shares of our common stock or any other class or series of our other securities. Subject to the restrictions in BNY Mellon's 2007 replacement capital covenant, subsequently amended on May 8

and Sept. 11, 2012, we may redeem the Series A preferred stock, in whole or in part, at our option. We may also, at our option, redeem the shares of the Series C preferred stock in whole or in part, on or after the dividend payment date in September 2017 and the Series D preferred stock in whole or in part, on or after the dividend payment date in June 2023. Both the Series C or Series D preferred stock can be redeemed in whole but not in part at any time within 90 days following a regulatory capital treatment event (as defined in the Certificate of Designations of the Series C preferred stock and the Certificate of Designations of the Series D preferred stock).

Terms of the Series A preferred stock, Series C preferred stock, and Series D preferred stock are more fully described in each of their Certificate of Designations, each of which is filed as an Exhibit to this Form 10-Q.

Note 13 - Other comprehensive income (loss)

Components of other comprehensive income (loss)

| (in millions) | Quarter ended March 31, 2015 | | | Dec. 31, 2014 | | | March 31, 2014 | | |
|--|---------------------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|
| | Pre-tax amount | Tax (expense) benefit | After-tax amount | Pre-tax amount | Tax (expense) benefit | After-tax amount | Pre-tax amount | Tax (expense) benefit | After-tax amount |
| Foreign currency translation: | | | | | | | | | |
| Foreign currency translation adjustments arising during the period | \$(615) | \$(98) | \$(713) | \$(283) | \$(48) | \$(331) | \$24 | \$13 | \$37 |
| Total foreign currency translation | (615) | (98) | (713) | (283) | (48) | (331) | 24 | 13 | 37 |
| Unrealized gain (loss) on assets available-for-sale: | | | | | | | | | |
| Unrealized gain (loss) arising during period | 202 | (68) | 134 | 63 | (26) | 37 | 250 | (88) | 162 |
| Reclassification adjustment (a) | (24) | 9 | (15) | (31) | 13 | (18) | (22) | 9 | (13) |
| Net unrealized gain (loss) on assets available-for-sale | 178 | (59) | 119 | 32 | (13) | 19 | 228 | (79) | 149 |
| Defined benefit plans: | | | | | | | | | |
| Prior service cost arising during the period | — | — | — | 3 | (1) | 2 | — | — | — |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | | | | | | |
|---|----------|---------|----------|----------|-------|----------|-------|---------|-------|
| Net gain (loss) arising during the period | (185) | 76 | (109) | (766) | 287 | (479) | — | — | — |
| Foreign exchange adjustment | — | — | — | (2) | 1 | (1) | — | — | — |
| Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost (a) | 7 | (2) | 5 | 35 | (13) | 22 | 30 | (11) | 19 |
| Total defined benefit plans | (178) | 74 | (104) | (730) | 274 | (456) | 30 | (11) | 19 |
| Unrealized gain (loss) on cash flow hedges: | | | | | | | | | |
| Unrealized hedge gain (loss) arising during period | 2 | 5 | 7 | 5 | (4) | 1 | 6 | — | 6 |
| Reclassification adjustment (a) | (3) | (5) | (8) | (7) | 4 | (3) | (4) | (1) | (5) |
| Net unrealized gain (loss) on cash flow hedges | (1) | — | (1) | (2) | — | (2) | 2 | (1) | 1 |
| Total other comprehensive income (loss) | \$(616) | \$(83) | \$(699) | \$(983) | \$213 | \$(770) | \$284 | \$(78) | \$206 |

The reclassification adjustment related to the unrealized gain (loss) on assets available-for-sale is recorded as net securities gains on the Consolidated Income Statement. The amortization of prior service credit, net loss and initial (a) obligation included in net periodic benefit cost is recorded as staff expense on the Consolidated Income Statement. See Note 16 of the Notes to Consolidated Financial Statements for the location of the reclassification adjustment related to cash flow hedges on the Consolidated Income Statement.

Notes to Consolidated Financial Statements (continued)

Note 14 - Fair value measurement

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. A three-level hierarchy for fair value measurements is utilized based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. BNY Mellon's own creditworthiness is considered when valuing liabilities.

Fair value focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The objective is to determine from weighted indicators of fair value a reasonable point within the range that is most representative of fair value under current market conditions.

Determination of fair value

Following is a description of our valuation methodologies for assets and liabilities measured at fair value. We have established processes for determining fair values. Fair value is based upon quoted market prices in active markets, where available. For financial instruments where quotes from recent exchange transactions are not available, we determine fair value based on discounted cash flow analysis, comparison to similar instruments, and the use of financial models. Discounted cash flow analysis is dependent upon estimated future cash flows and the level of interest rates. Model-based pricing uses inputs of observable prices, where available, for interest rates, foreign exchange rates, option volatilities and other factors. Models are benchmarked and validated by an independent internal risk management function. Our valuation process takes into consideration factors such as counterparty credit quality, liquidity, concentration concerns, and observability of model parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

Most derivative contracts are valued using internally developed models which are calibrated to observable market data and employ standard market pricing theory for their valuations. An initial "risk-neutral" valuation is performed on each position assuming time-discounting based on an AA credit curve. Then, to arrive at a fair value that incorporates counter-party credit risk, a credit adjustment is made to these results by discounting each trade's expected exposures to the counterparty using the counterparty's credit spreads, as implied by the credit default swap market. We also adjust expected liabilities to the counterparty using BNY Mellon's own credit spreads, as implied by the credit default swap market. Accordingly, the valuation of our derivative position is sensitive to the current changes in our own credit spreads as well as those of our counterparties.

In certain cases, recent prices may not be observable for instruments that trade in inactive or less active markets. Upon evaluating the uncertainty in valuing financial instruments subject to liquidity issues, we make an adjustment to their value. The determination of the liquidity adjustment includes the availability of external quotes, the time since the latest available quote and the price volatility of the instrument.

Certain parameters in some financial models are not directly observable and, therefore, are based on management's estimates and judgments. These financial instruments are normally traded less actively. We apply valuation adjustments to mitigate the possibility of error and revision in the model based estimate value. Examples include products where parameters such as correlation and recovery rates are unobservable.

The methods described above for instruments that trade in inactive or less active markets may produce a current fair value calculation that may not be indicative of net realizable value or reflective of future fair values. We believe our methods of determining fair value are appropriate and consistent with other market participants. However, the use of different methodologies or different assumptions to value certain financial instruments could result in a different estimate of fair value.

Valuation hierarchy

A three-level valuation hierarchy is used for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or

Notes to Consolidated Financial Statements (continued)

liability as of the measurement date. The three levels are described below.

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 1 assets and liabilities include debt and equity securities, derivative financial instruments actively traded on exchanges and U.S. Treasury securities that are actively traded in highly liquid over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices, for example, quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs that are observable or can be corroborated, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 assets and liabilities include debt instruments that are traded less frequently than exchange-traded securities and derivative instruments whose model inputs are observable in the market or can be corroborated by market-observable data. Examples in this category are agency and non-agency mortgage-backed securities, corporate debt securities and over-the-counter derivative contracts.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Examples in this category include certain private equity investments, derivative contracts that are highly structured or long-dated, and interests in certain securitized financial assets.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities

Where quoted prices are available in an active market, we classify the securities within Level 1 of the valuation hierarchy. Securities include both long and short positions. Level 1 securities include highly liquid government bonds, money market funds, foreign covered bonds and exchange-traded equities.

If quoted market prices are not available, we estimate fair values using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include agency and non-agency mortgage-backed securities, state and political subdivisions, commercial mortgage-backed securities, sovereign debt, corporate bonds and foreign covered bonds.

For securities where quotes from recent transactions are not available for identical securities, we determine fair value primarily based on pricing sources with reasonable levels of price transparency that employ financial models or obtain comparison to similar instruments to arrive at "consensus" prices.

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 discount rate and speed of prepayment for the types of transaction and apply such variables to similar types of bonds. We view these as observable transactions in the current marketplace and classify such securities as Level 2. Pricing sources discontinue pricing any specific security whenever they determine there is insufficient observable data to provide a good faith opinion on price.

In addition, we have significant investments in more actively traded agency RMBS and other types of securities such as sovereign debt. The pricing sources derive the prices for these securities largely from quotes they obtain from three major inter-dealer brokers. The pricing sources receive their daily observed trade price and other information feeds from the inter-dealer brokers.

For securities with bond insurance, the financial strength of the insurance provider is analyzed and that information is included in the fair value assessment for such securities.

In certain cases where there is limited activity or less transparency around inputs to the valuation, we classify those securities in Level 3 of the valuation hierarchy. Securities classified within Level 3 primarily include securities of state and political subdivisions and distressed debt securities.

BNY Mellon 84

Notes to Consolidated Financial Statements (continued)

At March 31, 2015, more than 99% of our securities were valued by pricing sources with reasonable levels of price transparency. Less than 1% of our securities were priced based on economic models and non-binding dealer quotes, and are included in Level 3 of the valuation hierarchy.

Consolidated collateralized loan obligations

BNY Mellon values assets in consolidated CLOs using observable market prices observed from the secondary loan market. The returns to the note holders are solely dependent on the assets and accordingly equal the value of those assets. Based on the structure of the CLOs, the valuation of the assets is attributable to the note holders. Changes in the values of assets and liabilities are reflected in the income statement as investment and other income and interest of investment management fund note holders, respectively. Consolidated CLOs are generally classified within Level 2 of the valuation hierarchy.

Derivatives

We classify exchange-traded derivatives valued using quoted prices in Level 1 of the valuation hierarchy. Examples include exchange-traded equity and foreign exchange options. Since few other classes of derivative contracts are listed on an exchange, most of our derivative positions are valued using internally developed models that use as their basis readily observable market parameters, and we classify them in Level 2 of the valuation hierarchy. Such derivatives include swaps and options, foreign exchange spot and forward contracts and credit default swaps.

Derivatives valued using models with significant unobservable market parameters in markets that lack two-way flow are classified in Level 3 of the valuation hierarchy. Examples include long-dated interest rate or currency swaps and options, where parameters may be unobservable for longer maturities; and certain products, where correlation risk is unobservable. The fair value of these derivatives composes less than 1% of our derivative financial instruments. Additional disclosures of derivative instruments are provided in Note 16 of the Notes to Consolidated Financial Statements.

Loans and unfunded lending-related commitments

Where quoted market prices are not available, we generally base the fair value of loans and unfunded lending-related commitments on observable market prices of similar instruments, including bonds, credit derivatives and loans with similar characteristics. If observable market prices are not available, we base the fair value on estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loans or the unfunded lending-related commitments.

Unrealized gains and losses, if any, on unfunded lending-related commitments carried at fair value are classified in other assets and other liabilities, respectively. Loans and unfunded lending-related commitments carried at fair value are generally classified within Level 2 of the valuation hierarchy.

Seed capital

In our Investment Management business, we manage investment assets, including equities, fixed income, money market and alternative investment funds for institutions and other investors. As part of that activity, we make seed capital investments in certain funds. Seed capital is included in other assets. When applicable, we value seed capital based on the published NAV of the fund. We include funds in which ownership interests in the fund are publicly traded in an active market and institutional funds in which investors trade in and out daily in Level 1 of the valuation

hierarchy. We include open-end funds where investors are allowed to sell their ownership interest back to the fund less frequently than daily and where our interest in the fund contains no other rights or obligations in Level 2 of the valuation hierarchy. However, we generally include investments in funds that allow investors to sell their ownership interest back to the fund less frequently than monthly in Level 3, unless actual redemption prices are observable.

For other types of investments in funds, we consider all of the rights and obligations inherent in our ownership interest, including the reported NAV as well as other factors that affect the fair value of our interest in the fund. To the extent the NAV measurements reported for the investments are based on unobservable inputs or include other rights and obligations (e.g., obligation to meet cash calls), we

85 BNY Mellon

Notes to Consolidated Financial Statements (continued)

generally classify them in Level 3 of the valuation hierarchy.

Certain interests in securitizations

For certain interests in securitizations that are classified in securities available-for-sale, trading assets and long-term debt, we use discounted cash flow models, which generally include assumptions of projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and estimates of payments to third-party investors. When available, we compare our fair value estimates and assumptions to market activity and to the actual results of the securitized portfolio.

Private equity investments

Our Other segment includes holdings of nonpublic private equity investments through funds managed by third-party investment managers. We value private equity investments initially based upon the transaction price, which we subsequently adjust to reflect expected exit values as evidenced by financing and sale transactions with third parties or through ongoing reviews by the investment managers.

Private equity investments also include publicly held equity investments, generally obtained through the initial public offering of privately held equity investments. These equity investments are often held in a partnership structure. Publicly held investments are marked-to-market at the quoted public value less adjustments for regulatory or contractual sales restrictions or adjustments to reflect the difficulty in selling a partnership interest.

Discounts for restrictions are quantified by analyzing the length of the restriction period and the volatility of the equity security. Publicly held private equity investments are primarily classified in Level 2 of the valuation hierarchy.

The following tables present the financial instruments carried at fair value at March 31, 2015 and Dec. 31, 2014, by caption on the consolidated balance sheet and by valuation hierarchy (as described above). We have included credit ratings information in certain of the tables because the information indicates the degree of credit risk to which we are exposed, and significant changes in ratings classifications could result in increased risk for us. There were no material transfers between Level 1 and Level 2 during the first quarter of 2015.

Notes to Consolidated Financial Statements (continued)

Assets measured at fair value on a recurring basis at March 31, 2015

| (dollar amounts in millions) | Level 1 | Level 2 | Level 3 | Netting (a) | Total carrying value |
|--|----------|-----------|---------|-------------|----------------------|
| Available-for-sale securities: | | | | | |
| U.S. Treasury | \$18,586 | \$— | \$— | \$— | \$ 18,586 |
| U.S. Government agencies | — | 385 | — | — | 385 |
| Sovereign debt/sovereign guaranteed | 40 | 15,203 | — | — | 15,243 |
| State and political subdivisions (b) | — | 5,128 | 11 | — | 5,139 |
| Agency RMBS | — | 25,183 | — | — | 25,183 |
| Non-agency RMBS | — | 920 | — | — | 920 |
| Other RMBS | — | 1,386 | — | — | 1,386 |
| Commercial MBS | — | 1,851 | — | — | 1,851 |
| Agency commercial MBS | — | 3,785 | — | — | 3,785 |
| Asset-backed CLOs | — | 2,258 | — | — | 2,258 |
| Other asset-backed securities | — | 3,400 | — | — | 3,400 |
| Equity securities | 92 | — | — | — | 92 |
| Money market funds (b) | 730 | — | — | — | 730 |
| Corporate bonds | — | 1,745 | — | — | 1,745 |
| Other debt securities | — | 2,068 | — | — | 2,068 |
| Foreign covered bonds | 2,338 | 470 | — | — | 2,808 |
| Non-agency RMBS (c) | — | 2,138 | — | — | 2,138 |
| Total available-for-sale securities | 21,786 | 65,920 | 11 | — | 87,717 |
| Trading assets: | | | | | |
| Debt and equity instruments (b) | 1,579 | 2,288 | — | — | 3,867 |
| Derivative assets not designated as hedging: | | | | | |
| Interest rate | 27 | 17,024 | 3 | (13,365) | 3,689 |
| Foreign exchange | — | 6,199 | — | (4,391) | 1,808 |
| Equity | 64 | 192 | 3 | (118) | 141 |
| Total derivative assets not designated as hedging | 91 | 23,415 | 6 | (17,874) | 5,638 |
| Total trading assets | 1,670 | 25,703 | 6 | (17,874) | 9,505 |
| Loans | — | 140 | — | — | 140 |
| Other assets: | | | | | |
| Derivative assets designated as hedging: | | | | | |
| Interest rate | — | 574 | — | — | 574 |
| Foreign exchange | — | 464 | — | — | 464 |
| Total derivative assets designated as hedging | — | 1,038 | — | — | 1,038 |
| Other assets (d) | 234 | 897 | 54 | — | 1,185 |
| Total other assets | 234 | 1,935 | 54 | — | 2,223 |
| Subtotal assets of operations at fair value | 23,690 | 93,698 | 71 | (17,874) | 99,585 |
| Percentage of assets prior to netting | 20 | % 80 | %— | % | |
| Assets of consolidated investment management funds: | | | | | |
| Trading assets | 170 | 7,682 | — | — | 7,852 |
| Other assets | 462 | 111 | — | — | 573 |
| Total assets of consolidated investment management funds | 632 | 7,793 | — | — | 8,425 |
| Total assets | \$24,322 | \$101,491 | \$71 | \$(17,874) | \$ 108,010 |
| Percentage of assets prior to netting | 19 | % 81 | %— | % | |

87 BNY Mellon

Notes to Consolidated Financial Statements (continued)

Liabilities measured at fair value on a recurring basis at March 31, 2015

| (dollar amounts in millions) | Level 1 | Level 2 | Level 3 | Netting (a) | Total carrying value |
|--|---------|----------|---------|----------------|-------------------------|
| Trading liabilities: | | | | | |
| Debt and equity instruments | \$412 | \$235 | \$— | \$— | \$ 647 |
| Derivative liabilities not designated as hedging: | | | | | |
| Interest rate | 8 | 17,225 | 3 | (13,836) |)3,400 |
| Foreign exchange | — | 6,073 | — | (3,044) |)3,029 |
| Equity and other contracts | 28 | 354 | 3 | (119) |)266 |
| Total derivative liabilities not designated as hedging | 36 | 23,652 | 6 | (16,999) |)6,695 |
| Total trading liabilities | 448 | 23,887 | 6 | (16,999) |)7,342 |
| Long-term debt (b) | — | 355 | — | — | 355 |
| Other liabilities - derivative liabilities designated as hedging: | | | | | |
| Interest rate | — | 553 | — | — | 553 |
| Foreign exchange | — | 59 | — | — | 59 |
| Total other liabilities - derivative liabilities designated as hedging | — | 612 | — | — | 612 |
| Subtotal liabilities of operations at fair value | 448 | 24,854 | 6 | (16,999) |)8,309 |
| Percentage of liabilities prior to netting | 2 | %98 | %— | % | |
| Liabilities of consolidated investment management funds: | | | | | |
| Trading liabilities | — | 6,584 | — | — | 6,584 |
| Other liabilities | 27 | 9 | — | — | 36 |
| Total liabilities of consolidated investment management funds | 27 | 6,593 | — | — | 6,620 |
| Total liabilities | \$475 | \$31,447 | \$6 | \$(16,999) | \$ 14,929 |
| Percentage of liabilities prior to netting | 1 | %99 | %— | % | |

ASC 815 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral. Netting is applicable to derivatives not designated as (a) hedging instruments included in trading assets or trading liabilities, and derivatives designated as hedging instruments included in other assets or other liabilities. Netting is allocated to the derivative products based on the net fair value of each product.

(b) Includes certain interests in securitizations.

(c) Previously included in the Grantor Trust. The Grantor Trust was dissolved in 2011.

(d) Includes private equity investments and seed capital.

Notes to Consolidated Financial Statements (continued)

Assets measured at fair value on a recurring basis at Dec. 31, 2014

| (dollar amounts in millions) | Level 1 | Level 2 | Level 3 | Netting (a) | Total carrying value |
|--|----------|-----------|---------|-------------|----------------------|
| Available-for-sale securities: | | | | | |
| U.S. Treasury | \$19,997 | \$— | \$— | \$— | \$ 19,997 |
| U.S. Government agencies | — | 343 | — | — | 343 |
| Sovereign debt/sovereign guaranteed | 40 | 17,244 | — | — | 17,284 |
| State and political subdivisions (b) | — | 5,236 | 11 | — | 5,247 |
| Agency RMBS | — | 32,600 | — | — | 32,600 |
| Non-agency RMBS | — | 953 | — | — | 953 |
| Other RMBS | — | 1,551 | — | — | 1,551 |
| Commercial MBS | — | 1,959 | — | — | 1,959 |
| Agency commercial MBS | — | 3,132 | — | — | 3,132 |
| Asset-backed CLOs | — | 2,130 | — | — | 2,130 |
| Other asset-backed securities | — | 3,240 | — | — | 3,240 |
| Equity securities | 95 | — | — | — | 95 |
| Money market funds (b) | 763 | — | — | — | 763 |
| Corporate bonds | — | 1,785 | — | — | 1,785 |
| Other debt securities | — | 2,169 | — | — | 2,169 |
| Foreign covered bonds | 2,250 | 618 | — | — | 2,868 |
| Non-agency RMBS (c) | — | 2,214 | — | — | 2,214 |
| Total available-for-sale securities | 23,145 | 75,174 | 11 | — | 98,330 |
| Trading assets: | | | | | |
| Debt and equity instruments (b) | 2,204 | 2,217 | — | — | 4,421 |
| Derivative assets not designated as hedging: | | | | | |
| Interest rate | 7 | 17,137 | 6 | (13,942) | 3,208 |
| Foreign exchange | — | 6,280 | — | (4,246) | 2,034 |
| Equity | 96 | 278 | 3 | (159) | 218 |
| Total derivative assets not designated as hedging | 103 | 23,695 | 9 | (18,347) | 5,460 |
| Total trading assets | 2,307 | 25,912 | 9 | (18,347) | 9,881 |
| Loans | — | 21 | — | — | 21 |
| Other assets: | | | | | |
| Derivative assets designated as hedging: | | | | | |
| Interest rate | — | 477 | — | — | 477 |
| Foreign exchange | — | 374 | — | — | 374 |
| Total derivative assets designated as hedging | — | 851 | — | — | 851 |
| Other assets (d) | 250 | 745 | 70 | — | 1,065 |
| Total other assets | 250 | 1,596 | 70 | — | 1,916 |
| Subtotal assets of operations at fair value | 25,702 | 102,703 | 90 | (18,347) | 110,148 |
| Percentage of assets prior to netting | 20 | % 80 | %— | % | |
| Assets of consolidated investment management funds: | | | | | |
| Trading assets | 100 | 8,578 | — | — | 8,678 |
| Other assets | 457 | 147 | — | — | 604 |
| Total assets of consolidated investment management funds | 557 | 8,725 | — | — | 9,282 |
| Total assets | \$26,259 | \$111,428 | \$90 | \$(18,347) | \$119,430 |
| Percentage of assets prior to netting | 19 | % 81 | %— | % | |

89 BNY Mellon

Notes to Consolidated Financial Statements (continued)

Liabilities measured at fair value on a recurring basis at Dec. 31, 2014

| (dollar amounts in millions) | Level 1 | Level 2 | Level 3 | Netting (a) | Total carrying value |
|---|---------|----------|---------|-------------|----------------------|
| Trading liabilities: | | | | | |
| Debt and equity instruments | \$367 | \$294 | \$— | \$— | \$ 661 |
| Derivative liabilities not designated as hedging: | | | | | |
| Interest rate | 3 | 17,645 | 6 | (14,467) | 3,187 |
| Foreign exchange | — | 6,367 | — | (3,149) | 3,218 |
| Equity and other contracts | 47 | 499 | 3 | (181) | 368 |
| Total derivative liabilities not designated as hedging | 50 | 24,511 | 9 | (17,797) | 6,773 |
| Total trading liabilities | 417 | 24,805 | 9 | (17,797) | 7,434 |
| Long-term debt (b) | — | 347 | — | — | 347 |
| Other liabilities: | | | | | |
| Derivative liabilities designated as hedging: | | | | | |
| Interest rate | — | 385 | — | — | 385 |
| Foreign exchange | — | 62 | — | — | 62 |
| Total derivative liabilities designated as hedging | — | 447 | — | — | 447 |
| Other liabilities | 4 | — | — | — | 4 |
| Total other liabilities | 4 | 447 | — | — | 451 |
| Subtotal liabilities of operations at fair value | 421 | 25,599 | 9 | (17,797) | 8,232 |
| Percentage of liabilities prior to netting | 2 | % 98 | % — | % | |
| Liabilities of consolidated investment management funds: | | | | | |
| Trading liabilities | — | 7,660 | — | — | 7,660 |
| Other liabilities | 1 | 8 | — | — | 9 |
| Total liabilities of consolidated investment management funds | 1 | 7,668 | — | — | 7,669 |
| Total liabilities | \$422 | \$33,267 | \$9 | \$(17,797) | \$ 15,901 |
| Percentage of liabilities prior to netting | 1 | % 99 | % — | % | |

ASC 815 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral. Netting is applicable to derivatives not designated as (a) hedging instruments included in trading assets or trading liabilities, and derivatives designated as hedging instruments included in other assets or other liabilities. Netting is allocated to the derivative products based on the net fair value of each product.

(b) Includes certain interests in securitizations.

(c) Previously included in the Grantor Trust. The Grantor Trust was dissolved in 2011.

(d) Includes private equity investments and seed capital.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Notes to Consolidated Financial Statements (continued)

| Details of certain items measured at fair value on a recurring basis (dollar amounts in millions) | March 31, 2015 | | | | | Dec. 31, 2014 | | | | |
|---|----------------|---------|-----------|---------------|--------------------|---------------|---------|-----------|---------------|-------|
| | Total | Ratings | | | | Total | Ratings | | | |
| carrying value (a) | AAA/AA- | A+/A- | BBB+/BBB- | BB+ and lower | carrying value (a) | AAA/AA- | A+/A- | BBB+/BBB- | BB+ and lower | |
| Non-agency RMBS, originated in: | | | | | | | | | | |
| 2007 | \$76 | — | %— | %— | %100 | % \$78 | — % | — % | — % | 100 % |
| 2006 | 134 | — | — | — | 100 | 138 | — | — | — | 100 |
| 2005 | 276 | — | 21 | 18 | 61 | 284 | — | 21 | 19 | 60 |
| 2004 and earlier | 434 | 3 | 5 | 27 | 65 | 453 | 3 | 5 | 27 | 65 |
| Total non-agency RMBS | \$920 | 1 | %8 | %19 | %72 | % \$953 | 1 % | 9 % | 19 % | 71 % |
| Commercial MBS - Domestic, originated in: | | | | | | | | | | |
| 2009-2015 | \$686 | 84 | %16 | %— | %— | % \$639 | 83 % | 17 % | — % | — % |
| 2008 | 19 | 100 | — | — | — | 19 | 100 | — | — | — |
| 2007 | 349 | 65 | 21 | 14 | — | 353 | 65 | 21 | 14 | — |
| 2006 | 545 | 82 | 18 | — | — | 599 | 83 | 17 | — | — |
| 2005 | 179 | 100 | — | — | — | 271 | 100 | — | — | — |
| 2004 and earlier | 6 | 100 | — | — | — | 6 | 100 | — | — | — |
| Total commercial MBS - Domestic | \$1,784 | 81 | %16 | %3 | %— | % \$1,887 | 82 % | 15 % | 3 % | — % |
| Foreign covered bonds: | | | | | | | | | | |
| Canada | \$1,394 | 100 | %— | %— | %— | % \$1,266 | 100 % | — % | — % | — % |
| United Kingdom | 604 | 100 | — | — | — | 690 | 100 | — | — | — |
| Netherlands | 215 | 100 | — | — | — | 244 | 100 | — | — | — |
| Other | 595 | 100 | — | — | — | 668 | 100 | — | — | — |
| Total foreign covered bonds | \$2,808 | 100 | %— | %— | %— | % \$2,868 | 100 % | — % | — % | — % |
| European floating rate notes - available-for-sale: | | | | | | | | | | |
| United Kingdom | \$1,052 | 83 | %17 | %— | %— | % \$1,172 | 83 % | 17 % | — % | — % |
| Netherlands | 250 | 100 | — | — | — | 296 | 100 | — | — | — |
| Ireland | 129 | — | — | — | 100 | 144 | — | — | — | 100 |
| Other | 21 | 100 | — | — | — | 25 | 99 | 1 | — | — |
| Total European floating rate notes - available-for-sale | \$1,452 | 79 | %12 | %— | %9 | % \$1,637 | 79 % | 12 % | — % | 9 % |
| Sovereign debt/sovereign guaranteed: | | | | | | | | | | |
| France | \$4,252 | 100 | %— | %— | %— | % \$3,550 | 100 % | — % | — % | — % |
| United Kingdom | 2,858 | 100 | — | — | — | 5,076 | 100 | — | — | — |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | | | | | | | |
|---|----------|-----|-----|------|-------|------------|-----|-----|------|-------|
| Spain | 1,817 | — | — | 100 | — | 1,978 | — | — | 100 | — |
| Germany | 1,548 | 100 | — | — | — | 1,522 | 100 | — | — | — |
| Italy | 1,252 | — | — | 100 | — | 1,427 | — | — | 100 | — |
| Netherlands | 1,237 | 100 | — | — | — | 1,800 | 100 | — | — | — |
| Belguim | 1,058 | 100 | — | — | — | 829 | 100 | — | — | — |
| Ireland | 802 | — | 17 | 83 | — | 672 | — | — | 100 | — |
| Other | 419 | 83 | — | 17 | — | 430 | 81 | — | 19 | — |
| Total sovereign debt/sovereign guaranteed | \$15,243 | 74 | % 1 | % 25 | % — | % \$17,284 | 76 | % — | % 24 | % — |
| Non-agency RMBS (b), originated in: | | | | | | | | | | |
| 2007 | \$599 | — | % — | % — | % 100 | % \$620 | — | % — | % — | 100 % |
| 2006 | 627 | — | — | 1 | 99 | 653 | — | — | 1 | 99 |
| 2005 | 706 | — | 3 | 1 | 96 | 727 | — | 3 | 1 | 96 |
| 2004 and earlier | 206 | — | 4 | 7 | 89 | 214 | — | 4 | 7 | 89 |
| Total non-agency RMBS (b) | \$2,138 | — | % 1 | % 1 | % 98 | % \$2,214 | — | % 1 | % 1 | % 98 |

(a) At March 31, 2015 and Dec. 31, 2014, foreign covered bonds and sovereign debt were included in Level 1 and Level 2 in the valuation hierarchy. All other assets in the table are Level 2 assets in the valuation hierarchy.

(b) Previously included in the Grantor Trust. The Grantor Trust was dissolved in 2011.

Changes in Level 3 fair value measurements

Our classification of a financial instrument in Level 3 of the valuation hierarchy is based on the significance of the unobservable factors to the overall fair value measurement. However, these instruments generally include other observable components that are actively quoted or validated to third-party sources; accordingly, the gains and losses in the table below include changes in fair value due to observable parameters as well as the unobservable parameters in our valuation methodologies. We also frequently manage the risks of Level 3 financial instruments

using securities and derivatives positions that are Level 1 or 2 instruments which are not included in the table; accordingly, the gains or losses below do not reflect the effect of our risk management activities related to the Level 3 instruments.

The Company has a Level 3 Pricing Committee which evaluates the valuation techniques used in determining the fair value of Level 3 assets and liabilities.

Notes to Consolidated Financial Statements (continued)

The tables below include a roll forward of the balance sheet amounts for the quarters ended March 31, 2015 and 2014 (including the change in fair value), for financial instruments classified in Level 3 of the valuation hierarchy.

Fair value measurements for assets using significant unobservable inputs for the three months ended March 31, 2015

| (in millions) | Available-for-sale securities | Trading assets | | Total assets |
|--|----------------------------------|----------------------------------|--------------|--------------|
| | State and political subdivisions | Derivative assets ^(a) | Other assets | |
| Fair value at Dec. 31, 2014 | \$ 11 | \$9 | \$70 | \$90 |
| Total gains or (losses) for the period: | | | | |
| Included in earnings (or changes in net assets) | — | (b) (1) | (c) (2) | (d) (3) |
| Purchases, sales and settlements: | | | | |
| Purchases | — | — | 7 | 7 |
| Sales | — | — | (21) | (21) |
| Settlements | — | (2) | — | (2) |
| Fair value at March 31, 2015 | \$ 11 | \$6 | \$54 | \$71 |
| Change in unrealized gains or (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period | | \$(1) | \$— | \$(1) |

(a) Derivative assets are reported on a gross basis.

Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in

(b) accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).

(c) Reported in foreign exchange and other trading revenue.

(d) Reported in investment and other income.

Fair value measurements for liabilities using significant unobservable inputs for the three months ended March 31, 2015

| (in millions) | Available-for-sale securities | Trading liabilities | | Total liabilities |
|---|----------------------------------|---------------------------------------|-------------------|-------------------|
| | State and political subdivisions | Derivative liabilities ^(a) | Other liabilities | |
| Fair value at Dec. 31, 2014 | | \$9 | | \$9 |
| Total (gains) or losses for the period: | | | | |
| Included in earnings (or changes in net liabilities) | | (1) | (b) (1) | (2) |
| Settlements | | (2) | | (2) |
| Fair value at March 31, 2015 | | \$6 | | \$6 |
| Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period | | \$1 | | \$1 |

(a) Derivative liabilities are reported on a gross basis.

(b) Reported in foreign exchange and other trading revenue.

Fair value measurements for assets using significant unobservable inputs for the three months ended March 31, 2014

| (in millions) | Available-for-sale securities | Trading assets | | Total assets |
|---------------|----------------------------------|-----------------------------|----------------------------------|--------------|
| | State and political subdivisions | Debt and equity instruments | Derivative assets ^(a) | |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | | |
|--|-------|-------|----------|-------|--------|
| Fair value at Dec. 31, 2013 | \$ 11 | \$1 | \$22 | \$105 | \$139 |
| Transfers out of Level 3 | — | — | (1) | — | (1) |
| Total gains or (losses) for the period: | | | | | |
| Included in earnings (or changes in net assets) | — | (b) — | (c) (2) | (c) 2 | (d) — |
| Purchases and sales: | | | | | |
| Purchases | — | — | — | 8 | 8 |
| Sales | — | — | — | (5) | (5) |
| Fair value at March 31, 2014 | \$ 11 | \$1 | \$19 | \$110 | \$141 |
| Change in unrealized gains or (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period | | \$— | \$(2) | \$— | \$(2) |

(a) Derivative assets are reported on a gross basis.

Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in

(b) accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).

(c) Reported in foreign exchange and other trading revenue.

(d) Reported in investment and other income.

Notes to Consolidated Financial Statements (continued)

Fair value measurements for liabilities using significant unobservable inputs for the three months ended March 31, 2014

| (in millions) | Trading liabilities | |
|---|------------------------|-----------------------|
| | Derivative liabilities | (a) Total liabilities |
| Fair value at Dec. 31, 2013 | \$75 | \$75 |
| Transfers out of Level 3 | (37 |) (37 |
| Total (gains) or losses for the period: | | |
| Included in earnings (or changes in net liabilities) | 3 | (b) 3 |
| Fair value at March 31, 2014 | \$41 | \$41 |
| Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period | \$3 | \$3 |

(a) Derivative liabilities are reported on a gross basis.

(b) Reported in foreign exchange and other trading revenue.

Assets and liabilities measured at fair value on a nonrecurring basis

Under certain circumstances, we make adjustments to fair value our assets, liabilities and unfunded lending-related commitments although they are not measured at fair value on an ongoing basis. An example would be the recording of an impairment of an asset.

The following tables present the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy as of March 31, 2015 and Dec. 31, 2014, for which a nonrecurring change in fair value has been recorded during the quarters ended March 31, 2015 and Dec. 31, 2014.

| Assets measured at fair value on a nonrecurring basis at March 31, 2015 | | | | Total carrying value |
|---|---------|---------|---------|----------------------|
| (in millions) | Level 1 | Level 2 | Level 3 | |
| Loans (a) | \$— | \$108 | \$2 | \$110 |
| Other assets (b) | — | 7 | — | 7 |
| Total assets at fair value on a nonrecurring basis | \$— | \$115 | \$2 | \$117 |

| Assets measured at fair value on a nonrecurring basis at Dec. 31, 2014 | | | | Total carrying value |
|--|---------|---------|---------|----------------------|
| (in millions) | Level 1 | Level 2 | Level 3 | |
| Loans (a) | \$— | \$112 | \$2 | \$114 |
| Other assets (b) | — | 6 | — | 6 |
| Total assets at fair value on a nonrecurring basis | \$— | \$118 | \$2 | \$120 |

During the quarters ended March 31, 2015 and Dec. 31, 2014, the fair value of these loans increased less than \$1 (a) million and decreased \$3 million, respectively, based on the fair value of the underlying collateral as allowed by ASC 310, Accounting by Creditors for Impairment of a loan, with an offset to the allowance for credit losses.

(b) Includes other assets received in satisfaction of debt and loans held for sale. Loans held for sale are carried on the balance sheet at the lower of cost or fair value.

93 BNY Mellon

Notes to Consolidated Financial Statements (continued)

Level 3 unobservable inputs

The following tables present the unobservable inputs used in the valuation of assets and liabilities classified as Level 3 within the fair value hierarchy.

Quantitative information about Level 3 fair value measurements of assets

| (dollars in millions) | Fair value at March 31, 2015 | Valuation techniques | Unobservable input | Range |
|---------------------------------------|------------------------------------|--------------------------|---------------------------------------|-------------|
| Measured on a recurring basis: | | | | |
| Available-for-sale securities: | | | | |
| State and political subdivisions | \$11 | Discounted cash flow | Expected credit loss | 1 % |
| Trading assets - Derivative assets: | | | | |
| Interest rate contracts: | | | | |
| Structured foreign exchange swaptions | 3 | Option pricing model (a) | Correlation risk | 0%-25% |
| | | | Long-term foreign exchange volatility | 13%-15% |
| Equity: | | | | |
| Equity options | 3 | Option pricing model (a) | Long-term equity volatility | 21%-22% |
| Measured on a nonrecurring basis: | | | | |
| Loans | 2 | Discounted cash flows | Timing of sale | 0-15 months |
| | | | Cap rate | 8 % |
| | | | Cost to complete/sell | 0%-260% |

Quantitative information about Level 3 fair value measurements of liabilities

| (dollars in millions) | Fair value at March 31, 2015 | Valuation techniques | Unobservable input | Range |
|---|------------------------------------|--------------------------|---------------------------------------|---------|
| Measured on a recurring basis: | | | | |
| Trading liabilities - Derivative liabilities: | | | | |
| Interest rate contracts: | | | | |
| Structured foreign exchange swaptions | \$3 | Option pricing model (a) | Correlation risk | 0%-25% |
| | | | Long-term foreign exchange volatility | 13%-15% |
| Equity: | | | | |
| Equity options | 3 | Option pricing model (a) | Long-term equity volatility | 21%-22% |

(a) The option pricing model uses market inputs such as foreign currency exchange rates, interest rates and volatility to calculate the fair value of the option.

Estimated fair value of financial instruments

The carrying amounts of our financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods - see Note 1 of the Notes to Consolidated Financial Statements. The following disclosure discusses these instruments on a uniform fair value basis. However, active markets do not exist for a significant portion of these instruments. For financial instruments where quoted prices from identical assets and liabilities in active markets do not exist, we determine fair value based on discounted cash flow analysis and comparison to similar instruments. Discounted cash flow analysis is dependent upon estimated future cash flows and the level of interest rates. Other judgments would result in different fair values. The fair value information supplements the basic financial statements and other traditional financial data presented throughout this report.

A summary of the practices used for determining fair value and the respective level in the valuation hierarchy for financial assets and liabilities not recorded at fair value follows.

Interest-bearing deposits with the Federal Reserve and other central banks and interest-bearing deposits with banks

The estimated fair value of interest-bearing deposits with the Federal Reserve and other central banks is equal to the book value as these interest-bearing deposits are generally considered cash equivalents. These instruments are classified as Level 2 within the valuation hierarchy. The estimated fair value of interest-bearing deposits with banks is generally determined using discounted cash flows and duration of the instrument to maturity. The primary inputs used to value these transactions are interest rates based on current LIBOR market rates and time to

Notes to Consolidated Financial Statements (continued)

maturity. Interest-bearing deposits with banks are classified as Level 2 within the valuation hierarchy.

Federal funds sold and securities purchased under resale agreements

The estimated fair value of federal funds sold and securities purchased under resale agreements is based on inputs such as interest rates and tenors. Federal funds sold and securities purchased under resale agreements are classified as Level 2 within the valuation hierarchy.

Securities held-to-maturity

Where quoted prices are available in an active market for identical assets and liabilities, we classify the securities as Level 1 within the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include U.S. Treasury securities.

If quoted market prices are not available for identical assets and liabilities, we estimate fair value using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such instruments, which would generally be classified as Level 2 within the valuation hierarchy, include certain agency and non-agency mortgage-backed securities, commercial mortgage-backed securities and state and political subdivision securities. For securities where quotes from active markets are not available for identical securities, we determine fair value primarily based on pricing sources with reasonable levels of price transparency that employ financial models or obtain comparison to similar instruments to arrive at “consensus” prices.

Specifically, the pricing sources obtain active market prices for similar types of securities (e.g., vintage, position in the securitization structure) and ascertain variables such as discount rate and speed of prepayment for the types of transaction and apply such variables to similar types of bonds. We view these as observable transactions in the current marketplace and classify such securities as Level 2 within the valuation hierarchy.

Loans

For residential mortgage loans, fair value is estimated using discounted cash flow analysis, adjusting where appropriate for prepayment estimates, using interest

rates currently being offered for loans with similar terms and maturities to borrowers. The estimated fair value of margin loans and overdrafts is equal to the book value due to the short-term nature of these assets. The estimated fair value of other types of loans, including our term loan program, is determined using discounted cash flows. Inputs include current LIBOR market rates adjusted for credit spreads. These loans are generally classified as Level 2 within the valuation hierarchy.

Other financial assets

Other financial assets include cash, the Federal Reserve Bank stock and accrued interest receivable. Cash is classified as Level 1 within the valuation hierarchy. The Federal Reserve Bank stock is not redeemable or transferable. The estimated fair value of the Federal Reserve Bank stock is based on the issue price and is classified as Level 2 within the valuation hierarchy. Accrued interest receivable is generally short-term. As a result, book value is considered to equal fair value. Accrued interest receivable is included as Level 2 within the valuation hierarchy.

Noninterest-bearing and interest-bearing deposits

Interest-bearing deposits are comprised of money market rate and demand deposits, savings deposits and time deposits. Except for time deposits, book value is considered to equal fair value for these deposits due to their short duration to maturity or payable on demand feature. The fair value of interest-bearing time deposits is determined using discounted cash flow analysis. Inputs primarily consist of current LIBOR market rates and time to maturity. For all noninterest-bearing deposits, book value is considered to equal fair value as a result of the short duration of the deposit. Interest-bearing and noninterest-bearing deposits are classified as Level 2 within the valuation hierarchy.

Federal funds purchased and securities sold under repurchase agreements

The estimated fair value of federal funds purchased and securities sold under repurchase agreements is based on inputs such as interest rates and tenors. Federal funds purchased and securities sold under repurchase agreements are classified as Level 2 within the valuation hierarchy.

95 BNY Mellon

Notes to Consolidated Financial Statements (continued)

Payables to customers and broker-dealers

The estimated fair value of payables to customers and broker-dealers is equal to the book value, due to the demand feature of the payables to customers and broker-dealers, and are classified as Level 2 within the valuation hierarchy.

Borrowings

Borrowings primarily consist of overdrafts of subcustodian account balances in our Investment Services businesses, commercial paper and accrued interest payable. The estimated fair value of overdrafts of subcustodian account balances in our Investment Services businesses is considered to equal book value as a result of the short duration of the overdrafts and is included as Level 2 within the valuation hierarchy. Overdrafts are typically repaid within two days. The estimated fair value of our commercial paper is based on discount and duration of the commercial paper. Our commercial paper matures within 397 days from date of issue and is not

redeemable prior to maturity or subject to voluntary prepayment. Our commercial paper is included in Level 2 of the valuation hierarchy. Accrued interest payable is generally short-term. As a result, book value is considered to equal fair value. Accrued interest payable is included as Level 2 within the valuation hierarchy.

Long-term debt

The estimated fair value of long-term debt is based on current rates for instruments of the same remaining maturity or quoted market prices for the same or similar issues. Long-term debt is classified as Level 2 within the valuation hierarchy.

The following tables present the estimated fair value and the carrying amount of financial instruments not carried at fair value on the consolidated balance sheet at March 31, 2015 and Dec. 31, 2014, by caption on the consolidated balance sheet and by the valuation hierarchy (as described above).

| Summary of financial instruments (in millions) | March 31, 2015 | | | Total estimated fair value | Carrying amount |
|--|-----------------|------------------|------------|----------------------------------|--------------------|
| | Level 1 | Level 2 | Level 3 | | |
| Assets: | | | | | |
| Interest-bearing deposits with the Federal Reserve and other central banks | \$— | \$89,704 | \$— | \$89,704 | \$89,704 |
| Interest-bearing deposits with banks | — | 18,947 | — | 18,947 | 18,937 |
| Federal funds sold and securities purchased under resale agreements | — | 28,268 | — | 28,268 | 28,268 |
| Securities held-to-maturity | 10,462 | 31,214 | — | 41,676 | 41,237 |
| Loans | — | 60,088 | — | 60,088 | 59,906 |
| Other financial assets | 7,167 | 1,073 | — | 8,240 | 8,240 |
| Total | \$17,629 | \$229,294 | \$— | \$246,923 | \$246,292 |
| Liabilities: | | | | | |
| Noninterest-bearing deposits | \$— | \$111,622 | \$— | \$111,622 | \$111,622 |
| Interest-bearing deposits | — | 168,831 | — | 168,831 | 169,637 |
| Federal funds purchased and securities sold under repurchase agreements | — | 7,919 | — | 7,919 | 7,919 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | | |
|--|-----|-----------|-----|-----------|-----------|
| Payables to customers and broker-dealers | — | 21,959 | — | 21,959 | 21,959 |
| Borrowings | — | 984 | — | 984 | 984 |
| Long-term debt | — | 20,711 | — | 20,711 | 20,046 |
| Total | \$— | \$332,026 | \$— | \$332,026 | \$332,167 |

BNY Mellon 96

Notes to Consolidated Financial Statements (continued)

| Summary of financial instruments (in millions) | Dec. 31, 2014 | | | Total estimated fair value | Carrying amount |
|--|-----------------|------------------|------------|----------------------------------|--------------------|
| | Level 1 | Level 2 | Level 3 | | |
| Assets: | | | | | |
| Interest-bearing deposits with the Federal Reserve and other central banks | \$— | \$96,682 | \$— | \$96,682 | \$96,682 |
| Interest-bearing deposits with banks | — | 19,505 | — | 19,505 | 19,495 |
| Federal funds sold and securities purchased under resale agreements | — | 20,302 | — | 20,302 | 20,302 |
| Securities held-to-maturity | 5,063 | 16,064 | — | 21,127 | 20,933 |
| Loans | — | 56,840 | — | 56,840 | 56,749 |
| Other financial assets | 6,970 | 1,121 | — | 8,091 | 8,091 |
| Total | \$12,033 | \$210,514 | \$— | \$222,547 | \$222,252 |
| Liabilities: | | | | | |
| Noninterest-bearing deposits | \$— | \$104,240 | \$— | \$104,240 | \$104,240 |
| Interest-bearing deposits | — | 160,688 | — | 160,688 | 161,629 |
| Federal funds purchased and securities sold under repurchase agreements | — | 11,469 | — | 11,469 | 11,469 |
| Payables to customers and broker-dealers | — | 21,181 | — | 21,181 | 21,181 |
| Borrowings | — | 956 | — | 956 | 956 |
| Long-term debt | — | 20,401 | — | 20,401 | 19,917 |
| Total | \$— | \$318,935 | \$— | \$318,935 | \$319,392 |

The table below summarizes the carrying amount of the hedged financial instruments, the notional amount of the hedge and the unrealized gain (loss) (estimated fair value) of the derivatives.

| Hedged financial instruments (in millions) | Carrying amount | Notional amount of hedge | Unrealized | |
|---|--------------------|--------------------------------|------------|---------|
| | | | Gain | (Loss) |
| March 31, 2015 | | | | |
| Securities available-for-sale | \$7,233 | \$6,966 | \$4 | \$(539) |
| Long-term debt | 16,623 | 16,100 | 568 | (14) |
| Dec. 31, 2014 | | | | |
| Securities available-for-sale | \$7,294 | \$7,045 | \$4 | \$(370) |
| Long-term debt | 16,469 | 16,100 | 470 | (14) |

Note 15 - Fair value option

We elected fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments.

The following table presents the assets and liabilities, by type, of consolidated investment management funds recorded at fair value.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| Assets and liabilities of consolidated investment management funds, at fair value (in millions) | March 31, 2015 | Dec. 31, 2014 |
|--|----------------|---------------|
| Assets of consolidated investment management funds: | | |
| Trading assets | \$7,852 | \$8,678 |
| Other assets | 573 | 604 |
| Total assets of consolidated investment management funds | \$8,425 | \$9,282 |
| Liabilities of consolidated investment management funds: | | |
| Trading liabilities | \$6,584 | \$7,660 |
| Other liabilities | 36 | 9 |
| Total liabilities of consolidated investment management funds | \$6,620 | \$7,669 |

97 BNY Mellon

Notes to Consolidated Financial Statements (continued)

BNY Mellon values assets in consolidated CLOs using observable market prices from the secondary loan market. The returns to the note holders are solely dependent on the assets and accordingly equal the value of those assets. Mark-to-market valuation best reflects the limited interest BNY Mellon has in the economic performance of the consolidated CLOs. Changes in the values of assets and liabilities are reflected in the income statement as investment income of consolidated investment management funds and in the interest of investment management fund noteholders, respectively.

We have elected the fair value option on \$138 million and \$21 million of loans at March 31, 2015 and Dec. 31, 2014, respectively. The fair value of these loans was \$140 million at March 31, 2015 and \$21 million at Dec. 31, 2014. The loans were valued using observable market inputs to discount expected loan cash flows. These loans are included in Level 2 of the valuation hierarchy.

We have elected the fair value option on \$240 million of long-term debt. The fair value of this long-term debt was \$355 million at March 31, 2015 and \$347 million at Dec. 31, 2014. The long-term debt is valued using observable market inputs and is included in Level 2 of the valuation hierarchy.

The following table presents the changes in fair value of the loans and long-term debt and the location of the changes in the consolidated income statement.

Impact of changes in fair value in the income statement (a)

| (in millions) | Quarter ended March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
|--|---------------------------------|---------------|----------------|
| Loans: | | | |
| Investment and other income | \$2 | \$— | \$— |
| Long-term debt: | | | |
| Foreign exchange and other trading revenue | \$(8 |)\$ (10 |)\$ (8 |

(a) The changes in fair value of the loans and long-term debt are approximately offset by economic hedges included in investment and other income and foreign exchange and other trading revenue.

Note 16 - Derivative instruments

We use derivatives to manage exposure to market risk including interest rate risk, equity price risk and foreign currency risk, as well as credit risk. Our

trading activities are focused on acting as a market-maker for our customers and facilitating customer trades. Positions managed for our own account are immaterial to our foreign exchange and other trading revenue and to our overall results of operations.

The notional amounts for derivative financial instruments express the dollar volume of the transactions; however, credit risk is much smaller. We perform credit reviews and enter into netting agreements and collateral arrangements to minimize the credit risk of derivative financial instruments. We enter into offsetting positions to reduce exposure to foreign currency, interest rate and equity price risk.

Use of derivative financial instruments involves reliance on counterparties. Failure of a counterparty to honor its obligation under a derivative contract is a risk we assume whenever we engage in a derivative contract. Recoveries of less than \$1 million were recorded in the first quarter of 2015. There were no counterparty default losses in the first quarter of 2014.

Hedging derivatives

We utilize interest rate swap agreements to manage our exposure to interest rate fluctuations. For hedges of available-for-sale investment securities, deposits and long-term debt, the hedge documentation specifies the terms of the hedged items and the interest rate swaps and indicates that the derivative is hedging a fixed rate item and is a fair value hedge, that the hedge exposure is to the changes in the fair value of the hedged item due to changes in benchmark interest rates, and that the strategy is to eliminate fair value variability by converting fixed-rate interest payments to LIBOR.

The available-for-sale investment securities hedged consist of sovereign debt, U.S. Treasury bonds, agency commercial mortgage-backed securities and covered bonds that had original maturities of 30 years or less at initial purchase. The swaps on all of these investment securities are not callable. All of these securities are hedged with “pay fixed rate, receive variable rate” swaps of similar maturity, repricing and fixed rate coupon. At March 31, 2015, \$6.8 billion face amount of securities were hedged with interest rate swaps that had notional values of \$7.0 billion.

The fixed rate long-term debt instruments hedged generally have original maturities of five to 30 years.

BNY Mellon 98

Notes to Consolidated Financial Statements (continued)

We issue both callable and non-callable debt. The non-callable debt is hedged with “receive fixed rate, pay variable rate” swaps with similar maturity, repricing and fixed rate coupon. Callable debt is hedged with callable swaps where the call dates of the swaps exactly match the call dates of the debt. At March 31, 2015, \$16.1 billion par value of debt was hedged with interest rate swaps that had notional values of \$16.1 billion.

In addition, we enter into foreign exchange hedges. We use forward foreign exchange contracts with maturities of nine months or less to hedge our British Pound, Euro, Hong Kong Dollar, Indian Rupee and Singapore Dollar foreign exchange exposure with respect to foreign currency forecasted revenue and expense transactions in entities that have the U.S. dollar as their functional currency. As of March 31, 2015, the hedged forecasted foreign currency transactions and designated forward foreign exchange contract hedges were \$276 million (notional), with a pre-tax loss of \$13 million recorded in accumulated other comprehensive income. This loss will be reclassified to income or expense over the next nine months.

We use forward foreign exchange contracts with remaining maturities of nine months or less as hedges against our foreign exchange exposure to various foreign currencies with respect to certain interest-bearing assets and their associated forecasted interest revenue. These hedges are designated as cash flow hedges. These hedges are effected such that their maturities and notional values match those of the corresponding transaction. As of March 31, 2015, the hedged interest bearing assets and designated forward foreign exchange contract hedges were \$150 million (notional), with a pre-tax loss of less than \$1 million recorded in accumulated other comprehensive income. This loss will be reclassified to net interest revenue over the next nine months.

Forward foreign exchange contracts are also used to hedge the value of our net investments in foreign subsidiaries. These forward foreign exchange contracts have maturities of less than two years. The derivatives employed are designated as hedges of changes in value of our foreign investments due to exchange rates. Changes in the value of the forward foreign exchange contracts offset the changes in value of the foreign investments due to changes in foreign exchange rates. The change in fair market value of these forward foreign exchange contracts is deferred and reported within accumulated translation adjustments in shareholders’ equity, net of tax. At March 31, 2015, forward foreign exchange contracts with notional amounts totaling \$6.9 billion were designated as hedges.

In addition to forward foreign exchange contracts, we also designate non-derivative financial instruments as hedges of our net investments in foreign subsidiaries. Those non-derivative financial instruments designated as hedges of our net investments in foreign subsidiaries were all long-term liabilities of BNY Mellon in various currencies, and, at March 31, 2015, had a combined U.S. dollar equivalent value of \$497 million.

Ineffectiveness related to derivatives and hedging relationships was recorded in income as follows:

| Ineffectiveness (in millions) | Three months ended | | |
|--|--------------------|---------------|-------------------|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
| Fair value hedges of securities | \$1.4 | \$(12.9 |)(4.9 |
| Fair value hedges of deposits and long-term debt | (3.7 |)(2.6 |)(2.8 |
| Cash flow hedges | — | — | 0.1 |
| Other (a) | — | — | (0.1 |
| Total | \$(2.3 |)(15.5 |)(7.7 |

(a) Includes ineffectiveness recorded on foreign exchange hedges.

99 BNY Mellon

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Notes to Consolidated Financial Statements (continued)

The following table summarizes the notional amount and credit exposure of our total derivative portfolio at March 31, 2015 and Dec. 31, 2014.

| Impact of derivative instruments on the balance sheet (in millions) | Notional value | | Asset derivatives fair value | | Liability derivatives fair value | |
|--|----------------|---------------|------------------------------|---------------|----------------------------------|---------------|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2015 | Dec. 31, 2014 | March 31, 2015 | Dec. 31, 2014 |
| Derivatives designated as hedging instruments (a): | | | | | | |
| Interest rate contracts | \$23,066 | \$23,145 | \$574 | \$477 | \$553 | \$385 |
| Foreign exchange contracts | 7,309 | 7,344 | 464 | 374 | 59 | 62 |
| Total derivatives designated as hedging instruments | | | \$1,038 | \$851 | \$612 | \$447 |
| Derivatives not designated as hedging instruments (b): | | | | | | |
| Interest rate contracts | \$689,734 | \$731,628 | \$17,054 | \$17,150 | \$17,236 | \$17,654 |
| Foreign exchange contracts | 593,662 | 528,401 | 6,199 | 6,280 | 6,073 | 6,367 |
| Equity contracts | 6,820 | 10,842 | 259 | 377 | 385 | 549 |
| Total derivatives not designated as hedging instruments | | | \$23,512 | \$23,807 | \$23,694 | \$24,570 |
| Total derivatives fair value (c) | | | \$24,550 | \$24,658 | \$24,306 | \$25,017 |
| Effect of master netting agreements (d) | | | (17,874) | (18,347) | (16,999) | (17,797) |
| Fair value after effect of master netting agreements | | | \$6,676 | \$6,311 | \$7,307 | \$7,220 |

(a) The fair value of asset derivatives and liability derivatives designated as hedging instruments is recorded as other assets and other liabilities, respectively, on the balance sheet.

(b) The fair value of asset derivatives and liability derivatives not designated as hedging instruments is recorded as trading assets and trading liabilities, respectively, on the balance sheet.

(c) Fair values are on a gross basis, before consideration of master netting agreements, as required by ASC 815.

(d) Effect of master netting agreements includes cash collateral received and paid of \$1,591 million and \$716 million, respectively, at March 31, 2015, and \$1,589 million and \$1,039 million, respectively, at Dec. 31, 2014.

At March 31, 2015, \$263 billion (notional) of interest rate contracts will mature within one year, \$244 billion between one and five years, and \$206 billion after five years. At March 31, 2015, \$587 billion (notional) of foreign exchange contracts will mature within one year, \$8 billion between one and five years, and \$6 billion after five years.

Impact of derivative instruments on the income statement
(in millions)

| Derivatives in fair value hedging relationships | Location of gain or (loss) recognized in income on derivatives | Gain or (loss) recognized in income on derivatives | | | Location of gain or (loss) recognized in income on hedged item | Gain or (loss) recognized in hedged item | | |
|---|--|--|---------|---------|--|--|-------|-------|
| | | 1Q15 | 4Q14 | 1Q14 | | 1Q15 | 4Q14 | 1Q14 |
| Interest rate contracts | Net interest revenue | \$(151) | \$(327) | \$(285) | Net interest revenue | \$149 | \$312 | \$277 |

| Derivatives in cash flow | Gain or (loss) recognized | Location of gain or (loss) reclassified | Gain or (loss) reclassified | Location of gain or (loss) recognized in | Gain or (loss) recognized in income on |
|--------------------------|---------------------------|---|-----------------------------|--|--|
|--------------------------|---------------------------|---|-----------------------------|--|--|

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| hedging relationships | in accumulated OCI on derivatives (effective portion) | from accumulated OCI into income (effective portion) | from accumulated OCI into income (effective portion) | income on derivatives (ineffective portion and amount excluded from effectiveness testing) | derivatives (ineffectiveness portion and amount excluded from effectiveness testing) | | |
|-----------------------|---|--|--|--|--|------|-----|
| | 1Q15 | 4Q14 | 1Q14 | | | | |
| FX contracts | \$(1) | \$— | \$(1) | Net interest revenue | \$— | \$— | \$— |
| FX contracts | — | (4) | 3 | Other revenue | — | (5) | — |
| FX contracts | 12 | 10 | 3 | Trading revenue | 12 | 10 | 3 |
| FX contracts | (9) | (2) | 1 | Salary expense | (8) | 2 | 2 |
| Total | \$2 | \$4 | \$6 | | \$3 | \$7 | \$4 |

BNY Mellon 100

Notes to Consolidated Financial Statements (continued)

| Derivatives in net investment hedging relationships | Gain or (loss) recognized in accumulated OCI on derivatives (effective portion) | | | Location of gain or (loss) reclassified from accumulated OCI into income (effective portion) | Gain or (loss) reclassified from accumulated OCI into income (effective portion) | Location of gain or (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing) | Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) | | | | |
|---|---|---------|--------|--|--|--|---|---------------|-----|-----|---------|
| | 1Q15 | 4Q14 | 1Q14 | | | | | | | | |
| FX contracts | \$368 | \$(530) | \$(16) | Net interest revenue | \$— | \$— | \$— | Other revenue | \$— | \$— | \$(0.1) |

Trading activities (including trading derivatives)

We manage trading risk through a system of position limits, a VaR methodology based on Monte Carlo simulations, stop loss advisory triggers, and other market sensitivity measures. Risk is monitored and reported to senior management by a separate unit on a daily basis. Based on certain assumptions, the VaR methodology is designed to capture the potential overnight pre-tax dollar loss from adverse changes in fair values of all trading positions. The calculation assumes a one-day holding period for most instruments, utilizes a 99% confidence level, and incorporates the non-linear characteristics of options. The VaR model is one of several statistical models used to develop economic capital results, which is allocated to lines of business for computing risk-adjusted performance.

As the VaR methodology does not evaluate risk attributable to extraordinary financial, economic or other occurrences, the risk assessment process includes a number of stress scenarios based upon the risk factors in the portfolio and management's assessment of market conditions. Additional stress scenarios based upon historical market events are also performed. Stress tests, by their design, incorporate the impact of reduced liquidity and the breakdown of observed correlations. The results of these stress tests are reviewed weekly with senior management.

Revenue from foreign exchange and other trading included the following:

| Foreign exchange and other trading revenue (in millions) | 1Q15 | 4Q14 | 1Q14 |
|--|-------|-------|-------|
| Foreign exchange | \$217 | \$165 | \$130 |
| Other trading revenue (loss): | | | |
| Fixed income | 11 | (18) |)1 |
| Equity/other | 1 | 4 | 5 |
| Total other trading revenue (loss) | 12 | (14) |)6 |
| Total foreign exchange and other trading revenue | \$229 | \$151 | \$136 |

Foreign exchange includes income from purchasing and selling foreign currencies and currency forwards, futures and options. Fixed income reflects results from futures and forward contracts, interest rate swaps, structured foreign currency swaps, options, and fixed income securities. Equity/other primarily includes revenue from equity securities and equity derivatives.

Counterparty credit risk and collateral

We assess credit risk of our counterparties through regular examination of their financial statements, confidential communication with the management of those counterparties and regular monitoring of publicly available credit rating information. This and other information is used to develop proprietary credit rating metrics used to assess credit quality.

Collateral requirements are determined after a comprehensive review of the credit quality of each counterparty. Collateral is generally held or pledged in the form of cash or highly liquid government securities. Collateral requirements are monitored and adjusted daily.

Additional disclosures concerning derivative financial instruments are provided in Note 14 of the Notes to Consolidated Financial Statements.

Disclosure of contingent features in over-the-counter (“OTC”) derivative instruments

Certain OTC derivative contracts and/or collateral agreements of The Bank of New York Mellon, our largest banking subsidiary and the subsidiary through which BNY Mellon enters into the substantial majority of all of its OTC derivative contracts and/or collateral agreements, contain provisions that may require us to take certain actions if The Bank of New York Mellon's public debt rating fell to a certain level. Early termination provisions, or “close-out” agreements, in those contracts could trigger immediate payment of outstanding contracts that are

101 BNY Mellon

Notes to Consolidated Financial Statements (continued)

in net liability positions. Certain collateral agreements would require The Bank of New York Mellon to immediately post additional collateral to cover some or all of The Bank of New York Mellon's liabilities to a counterparty.

The following table shows the fair value of contracts falling under early termination provisions that were in net liability positions as of March 31, 2015 for three key ratings triggers:

| If The Bank of New York Mellon's rating was changed to (Moody's/S&P) | Potential close-out exposures (fair value) (a) | |
|---|--|---------|
| A3/A- | \$ 146 | million |
| Baa2/BBB | \$ 1,338 | million |
| Ba1/BB+ | \$ 3,014 | million |

(a) The amounts represent potential total close-out values if The Bank of New York Mellon's rating were to immediately drop to the indicated levels.

The aggregated fair value of contracts impacting potential trade close-out amounts and collateral obligations can fluctuate from quarter to quarter due to changes in market conditions, changes in the composition of counterparty trades, new business, or changes to the agreement definitions establishing close-out or collateral obligations.

Additionally, if The Bank of New York Mellon's debt rating had fallen below investment grade on March 31, 2015, existing collateral arrangements would have required us to have posted an additional \$354 million of collateral.

Offsetting assets and liabilities

The following tables present derivative instruments and financial instruments that are either subject to an enforceable netting agreement or offset by collateral arrangements. There were no derivative instruments or financial instruments subject to a netting agreement for which we are not currently netting.

Offsetting of derivative assets and financial assets at March 31, 2015

| (in millions) | Gross assets recognized | Gross amounts offset in the balance sheet | Net assets recognized on the (a) balance sheet | Gross amounts not offset in the balance sheet | | Net amount |
|---|-------------------------|---|--|---|--------------------------|------------|
| | | | | Financial instruments | Cash collateral received | |
| Derivatives subject to netting arrangements: | | | | | | |
| Interest rate contracts | \$ 15,004 | \$ 13,365 | \$ 1,639 | \$ 399 | \$— | \$ 1,240 |
| Foreign exchange contracts | 5,245 | 4,391 | 854 | 90 | — | 764 |
| Equity contracts | 237 | 118 | 119 | — | — | 119 |
| Total derivatives subject to netting arrangements | 20,486 | 17,874 | 2,612 | 489 | — | 2,123 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | | | | |
|---|----------|----------|------------|----------|-----|---------|
| Total derivatives not subject to netting arrangements | 4,064 | — | 4,064 | — | — | 4,064 |
| Total derivatives | 24,550 | 17,874 | 6,676 | 489 | — | 6,187 |
| Reverse repurchase agreements | 20,750 | 2,020 | (b) 18,730 | 18,728 | — | 2 |
| Securities borrowing | 9,252 | — | 9,252 | 8,952 | — | 300 |
| Total | \$54,552 | \$19,894 | \$34,658 | \$28,169 | \$— | \$6,489 |

(a) Includes the effect of netting agreements and net cash collateral received. The offset related to the over-the-counter derivatives was allocated to the various types of derivatives based on the net positions.

Offsetting of reverse repurchase agreements relates to our involvement in the Fixed Income Clearing Corporation,

(b) where we settle government securities transactions on a net basis for payment and delivery through the Fedwire system.

BNY Mellon 102

Notes to Consolidated Financial Statements (continued)

Offsetting of derivative assets and financial assets at Dec. 31, 2014

| (in millions) | Gross assets recognized | Gross amounts offset in the balance sheet | Net assets recognized on the balance sheet (a) | Gross amounts not offset in the balance sheet | | |
|---|-------------------------|---|---|---|--------------------------|------------|
| | | | | Financial instruments | Cash collateral received | Net amount |
| Derivatives subject to netting arrangements: | | | | | | |
| Interest rate contracts | \$15,457 | \$13,942 | \$1,515 | \$408 | \$— | \$1,107 |
| Foreign exchange contracts | 5,291 | 4,246 | 1,045 | 176 | — | 869 |
| Equity contracts | 303 | 159 | 144 | 6 | — | 138 |
| Total derivatives subject to netting arrangements | 21,051 | 18,347 | 2,704 | 590 | — | 2,114 |
| Total derivatives not subject to netting arrangements | 3,607 | — | 3,607 | — | — | 3,607 |
| Total derivatives | 24,658 | 18,347 | 6,311 | 590 | — | 5,721 |
| Reverse repurchase agreements | 11,634 | 434 | (b) 11,200 | 11,198 | — | 2 |
| Securities borrowing | 9,033 | — | 9,033 | 8,733 | — | 300 |
| Total | \$45,325 | \$18,781 | \$26,544 | \$20,521 | \$— | \$6,023 |

(a) Includes the effect of netting agreements and net cash collateral received. The offset related to the over-the-counter derivatives was allocated to the various types of derivatives based on the net positions.

Offsetting of reverse repurchase agreements relates to our involvement in the Fixed Income Clearing Corporation,

(b) where we settle government securities transactions on a net basis for payment and delivery through the Fedwire system.

Offsetting of derivative liabilities and financial liabilities at March 31, 2015

| (in millions) | Gross liabilities recognized | Gross amounts offset in the balance sheet | Net liabilities recognized on the balance sheet (a) | Gross amounts not offset in the balance sheet | | |
|---|------------------------------|---|--|---|-------------------------|------------|
| | | | | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives subject to netting arrangements: | | | | | | |
| Interest rate contracts | \$16,238 | \$13,836 | \$2,402 | \$2,069 | \$— | \$333 |
| Foreign exchange contracts | 3,954 | 3,044 | 910 | 267 | — | 643 |
| Equity contracts | 335 | 119 | 216 | 191 | — | 25 |
| Total derivatives subject to netting arrangements | 20,527 | 16,999 | 3,528 | 2,527 | — | 1,001 |
| Total derivatives not subject to netting arrangements | 3,779 | — | 3,779 | — | — | 3,779 |
| Total derivatives | 24,306 | 16,999 | 7,307 | 2,527 | — | 4,780 |
| Repurchase agreements | 7,743 | 2,020 | (b) 5,723 | 5,721 | — | 2 |
| Securities lending | 2,142 | — | 2,142 | 2,061 | — | 81 |
| Total | \$34,191 | \$19,019 | \$15,172 | \$10,309 | \$— | \$4,863 |

- (a) Includes the effect of netting agreements and net cash collateral paid. The offset related to the over-the-counter derivatives was allocated to the various types of derivatives based on the net positions.
- (b) Offsetting of repurchase agreements relates to our involvement in the Fixed Income Clearing Corporation, where we settle government securities transactions on a net basis for payment and delivery through the Fedwire system.

Notes to Consolidated Financial Statements (continued)

Offsetting of derivative liabilities and financial liabilities at Dec. 31, 2014

| (in millions) | Gross liabilities recognized | Gross amounts offset in the balance sheet | Net liabilities recognized on the balance sheet (a) | Gross amounts not offset in the balance sheet | | |
|---|------------------------------|---|---|---|-------------------------|------------|
| | | | | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives subject to netting arrangements: | | | | | | |
| Interest rate contracts | \$16,884 | \$14,467 | \$2,417 | \$1,815 | \$— | \$602 |
| Foreign exchange contracts | 4,241 | 3,149 | 1,092 | 399 | — | 693 |
| Equity contracts | 481 | 181 | 300 | 250 | — | 50 |
| Total derivatives subject to netting arrangements | 21,606 | 17,797 | 3,809 | 2,464 | — | 1,345 |
| Total derivatives not subject to netting arrangements | 3,411 | — | 3,411 | — | — | 3,411 |
| Total derivatives | 25,017 | 17,797 | 7,220 | 2,464 | — | 4,756 |
| Repurchase agreements | 9,160 | 434 | (b) 8,726 | 8,722 | — | 4 |
| Securities lending | 2,571 | — | 2,571 | 2,494 | — | 77 |
| Total | \$36,748 | \$18,231 | \$18,517 | \$13,680 | \$— | \$4,837 |

(a) Includes the effect of netting agreements and net cash collateral paid. The offset related to the over-the-counter derivatives was allocated to the various types of derivatives based on the net positions.

(b) Offsetting of repurchase agreements relates to our involvement in the Fixed Income Clearing Corporation, where we settle government securities transactions on a net basis for payment and delivery through the Fedwire system.

Note 17 - Commitments and contingent liabilities

In the normal course of business, various commitments and contingent liabilities are outstanding that are not reflected in the accompanying consolidated balance sheets.

Our significant trading and off-balance sheet risks are securities, foreign currency and interest rate risk management products, commercial lending commitments, letters of credit and securities lending indemnifications. We assume these risks to reduce interest rate and foreign currency risks, to provide customers with the ability to meet credit and liquidity needs and to hedge foreign currency and interest rate risks. These items involve, to varying degrees, credit, foreign currency and interest rate risk not recognized in the balance sheet. Our off-balance sheet risks are managed and monitored in manners similar to those used for on-balance sheet risks. Significant industry concentrations related to credit exposure at March 31, 2015 are disclosed in the financial institutions portfolio exposure table and the commercial portfolio exposure table below.

| Financial institutions portfolio exposure (in billions) | March 31, 2015 | | |
|---|----------------|----------------------|----------------|
| | Loans | Unfunded commitments | Total exposure |
| Banks | \$9.1 | \$1.7 | \$10.8 |
| Asset managers | 1.7 | 5.1 | 6.8 |
| Securities industry | 3.3 | 1.1 | 4.4 |
| Insurance | 0.1 | 3.9 | 4.0 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| | | | |
|------------|--------|--------|--------|
| Government | 0.1 | 3.0 | 3.1 |
| Other | 0.4 | 1.2 | 1.6 |
| Total | \$14.7 | \$16.0 | \$30.7 |

| Commercial portfolio exposure (in billions) | March 31, 2015 | | Total exposure |
|---|----------------|----------------------|----------------|
| | Loans | Unfunded commitments | |
| Services and other | \$0.8 | \$6.0 | \$6.8 |
| Manufacturing | 0.4 | 5.7 | 6.1 |
| Energy and utilities | 0.5 | 5.5 | 6.0 |
| Media and telecom | 0.3 | 1.5 | 1.8 |
| Total | \$2.0 | \$18.7 | \$20.7 |

Major concentrations in securities lending are primarily to broker-dealers and are generally collateralized with cash. Securities lending transactions are discussed below.

Notes to Consolidated Financial Statements (continued)

The following table presents a summary of our off-balance sheet credit risks, net of participations.

| Off-balance sheet credit risks (in millions) | March 31, 2015 | Dec. 31, 2014 |
|---|-------------------|------------------|
| Lending commitments | \$34,166 | \$33,273 |
| Standby letters of credit (a) | 5,600 | 5,767 |
| Commercial letters of credit | 264 | 255 |
| Securities lending indemnifications (b) | 310,273 | 304,386 |

(a) Net of participations totaling \$961 million at March 31, 2015 and \$894 million at Dec. 31, 2014.

(b) Excludes the indemnification for securities for which BNY Mellon acts as an agent on behalf of CIBC Mellon clients, which totaled \$68 billion at March 31, 2015 and \$64 billion at Dec. 31, 2014.

Included in lending commitments are facilities that provide liquidity for variable rate tax-exempt securities wrapped by monoline insurers. The credit approval for these facilities is based on an assessment of the underlying tax-exempt issuer and considers factors other than the financial strength of the monoline insurer.

The total potential loss on undrawn lending commitments, standby and commercial letters of credit, and securities lending indemnifications is equal to the total notional amount if drawn upon, which does not consider the value of any collateral.

Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements. A summary of lending commitment maturities is as follows: \$11.3 billion in less than one year, \$22.6 billion in one to five years and \$252 million over five years.

Standby letters of credit (“SBLC”) principally support corporate obligations and were collateralized with cash and securities of \$412 million and \$421 million at March 31, 2015 and Dec. 31, 2014, respectively. At March 31, 2015, \$3.4 billion of the SBLCs will expire within one year and \$2.2 billion in one to five years.

We must recognize, at the inception of standby letters of credit and foreign and other guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. The fair value of the liability, which was recorded with a corresponding asset in other assets, was estimated as the present value of contractual customer fees.

The estimated liability for losses related to these commitments and SBLCs, if any, is included in the allowance for lending-related commitments. The allowance for lending-related commitments was \$93 million at March 31, 2015 and \$89 million at Dec. 31, 2014.

Payment/performance risk of SBLCs is monitored using both historical performance and internal ratings criteria. BNY Mellon’s historical experience is that SBLCs typically expire without being funded. SBLCs below investment grade are monitored closely for payment/performance risk. The table below shows SBLCs by investment grade:

| Standby letters of credit | March 31, 2015 | | Dec. 31, 2014 | |
|---------------------------|-------------------|---|------------------|---|
| Investment grade | 86 | % | 88 | % |
| Non-investment grade | 14 | % | 12 | % |

A commercial letter of credit is normally a short-term instrument used to finance a commercial contract for the shipment of goods from a seller to a buyer. Although the commercial letter of credit is contingent upon the satisfaction of specified conditions, it represents a credit exposure if the buyer defaults on the underlying transaction. As a result, the total contractual amounts do not necessarily represent future cash requirements. Commercial letters of credit totaled \$264 million at March 31, 2015 compared with \$255 million at Dec. 31, 2014.

A securities lending transaction is a fully collateralized transaction in which the owner of a security agrees to lend the security (typically through an agent, in our case, The Bank of New York Mellon), to a borrower, usually a broker-dealer or bank, on an open, overnight or term basis, under the terms of a prearranged contract, which normally matures in less than 90 days.

We typically lend securities with indemnification against borrower default. We generally require the borrower to provide collateral with a minimum value of 102% of the fair value of the securities borrowed, which is monitored on a daily basis, thus reducing credit risk. Market risk can also arise in securities lending transactions. These risks are controlled through policies limiting the level of risk that can be undertaken. Securities lending transactions are generally entered into only with highly-rated counterparties. Securities lending indemnifications

105 BNY Mellon

Notes to Consolidated Financial Statements (continued)

were secured by collateral of \$323 billion at March 31, 2015 and \$316 billion at Dec. 31, 2014.

CIBC Mellon, a joint venture between BNY Mellon and the Canadian Imperial Bank of Commerce (“CIBC”), engages in securities lending activities. CIBC Mellon, BNY Mellon, and CIBC jointly and severally indemnify securities lenders against specific types of borrower default. At March 31, 2015 and Dec. 31, 2014, \$68 billion and \$64 billion, respectively, of borrowings at CIBC Mellon for which BNY Mellon acts as agent on behalf of CIBC Mellon clients, were secured by collateral of \$72 billion and \$67 billion, respectively. If, upon a default, a borrower’s collateral was not sufficient to cover its related obligations, certain losses related to the indemnification could be covered by the indemnitors.

We expect many of these guarantees to expire without the need to advance any cash. The revenue associated with guarantees frequently depends on the credit rating of the obligor and the structure of the transaction, including collateral, if any.

Exposure for certain administrative errors

In connection with certain offshore tax-exempt funds that we manage, we may be liable to the funds for certain administrative errors. The errors relate to the resident status of such funds, potentially exposing the Company to a tax liability related to the funds’ earnings. The Company is in discussions with tax authorities regarding the funds. With the charge recorded in 2014 for this matter, we believe we are appropriately accrued and the additional reasonably possible exposure is not significant.

Indemnification arrangements

We have provided standard representations for underwriting agreements, acquisition and divestiture agreements, sales of loans and commitments, and other similar types of arrangements and customary indemnification for claims and legal proceedings related to providing financial services that are not otherwise included above. Insurance has been purchased to mitigate certain of these risks. Generally, there are no stated or notional amounts included in these indemnifications and the contingencies triggering the obligation for indemnification are not expected to occur. Furthermore, often counterparties to these

transactions provide us with comparable indemnifications. We are unable to develop an estimate of the maximum payout under these indemnifications for several reasons. In addition to the lack of a stated or notional amount in a majority of such indemnifications, we are unable to predict the nature of events that would trigger indemnification or the level of indemnification for a certain event. We believe, however, that the possibility that we will have to make any material payments for these indemnifications is remote. At March 31, 2015 and Dec. 31, 2014, we have not recorded any material liabilities under these arrangements.

Clearing and settlement exchanges

We are a noncontrolling equity investor in, and/or member of, several industry clearing or settlement exchanges through which foreign exchange, securities, derivatives or other transactions settle. Certain of these industry clearing and settlement exchanges require their members to guarantee their obligations and liabilities or to provide financial support in the event other members do not honor their obligations. We believe the likelihood that a clearing or settlement exchange (of which we are a member) would become insolvent is remote. Additionally, certain settlement exchanges have implemented loss allocation policies that enable the exchange to allocate settlement losses to the members of the exchange. It is not possible to quantify such mark-to-market loss until the loss occurs. In addition, any ancillary costs that occur as a result of any mark-to-market loss cannot be quantified. At March 31, 2015 and Dec. 31,

2014, we have not recorded any material liabilities under these arrangements.

Legal proceedings

In the ordinary course of business, BNY Mellon and its subsidiaries are routinely named as defendants in or made parties to pending and potential legal actions. We also are subject to governmental and regulatory examinations, information-gathering requests, investigations and proceedings (both formal and informal). Claims for significant monetary damages are often asserted in many of these legal actions, while claims for disgorgement, restitution, penalties and/or other remedial actions or sanctions may be sought in regulatory matters. It is inherently difficult to predict the eventual outcomes of such matters given their complexity and the particular facts and circumstances at issue in each of these matters.

BNY Mellon 106

Notes to Consolidated Financial Statements (continued)

However, on the basis of our current knowledge and understanding, we do not believe that judgments, settlements or orders, if any, arising from these matters (either individually or in the aggregate, after giving effect to applicable reserves and insurance coverage) will have a material adverse effect on the consolidated financial position or liquidity of BNY Mellon, although they could have a material effect on net income in a given period.

In view of the inherent unpredictability of outcomes in litigation and governmental and regulatory matters, particularly where (i) the damages sought are substantial or indeterminate, (ii) the proceedings are in the early stages, or (iii) the matters involve novel legal theories or a large number of parties, as a matter of course there is considerable uncertainty surrounding the timing or ultimate resolution of litigation and governmental and regulatory matters, including a possible eventual loss, fine, penalty or business impact, if any, associated with each such matter. In accordance with applicable accounting guidance, BNY Mellon establishes accruals for litigation and governmental and regulatory matters when those matters proceed to a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. BNY Mellon will continue to monitor such matters for developments that could affect the amount of the accrual, and will adjust the accrual amount as appropriate. If the loss contingency in question is not both probable and reasonably estimable, BNY Mellon does not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. BNY Mellon believes that its accruals for legal proceedings are appropriate and, in the aggregate, are not material to the consolidated financial position of BNY Mellon, although future accruals could have a material effect on net income in a given period.

For certain of those matters described here for which a loss contingency may, in the future, be reasonably possible (whether in excess of a related accrued liability or where there is no accrued liability), BNY Mellon is currently unable to estimate a range of reasonably possible loss. For those matters described here where BNY Mellon is able to estimate a reasonably possible loss, the aggregate range of such reasonably possible loss is up to \$280 million in excess of the accrued liability (if any) related to those matters.

The following describes certain judicial, regulatory and arbitration proceedings involving BNY Mellon:

Sentinel Matters

On Jan. 18, 2008, The Bank of New York Mellon filed a proof of claim in the Chapter 11 bankruptcy proceeding of Sentinel Management Group, Inc. (“Sentinel”) pending in federal court in the Northern District of Illinois, seeking to recover approximately \$312 million loaned to Sentinel and secured by securities and cash in an account maintained by Sentinel at The Bank of New York Mellon. On March 3, 2008, the bankruptcy trustee filed an adversary complaint against The Bank of New York Mellon seeking to disallow The Bank of New York Mellon’s claim and seeking damages for The Bank of New York Mellon’s allegedly aiding and abetting Sentinel insiders in misappropriating customer assets and improperly using those assets as collateral for the loan. In a decision dated Nov. 3, 2010, the court found for The Bank of New York Mellon and against the bankruptcy trustee, holding that The Bank of New York Mellon’s loan to Sentinel is valid, fully secured and not subject to equitable subordination. The bankruptcy trustee appealed this decision, and on Aug. 9, 2012, the United States Court of Appeals for the Seventh Circuit issued a decision affirming the trial court’s judgment. On Sept. 7, 2012, the bankruptcy trustee filed a petition for rehearing and, on Nov. 30, 2012, the Court of Appeals withdrew its opinion and vacated its judgment. On Aug. 26, 2013, the Court of Appeals reversed its own prior decision and the district court’s decision, and remanded the case to the district court for further proceedings. On Dec. 10, 2014, the district court issued a decision in favor of The Bank of New York Mellon holding that the transfers from Sentinel cannot be reversed and that The Bank of New York Mellon’s lien is valid and not subject to equitable subordination. On Jan. 8, 2015, the bankruptcy trustee filed a notice of appeal.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

In November 2009, the Division of Enforcement of the U.S. Commodities Futures Trading Commission (“CFTC”) indicated that it is considering a recommendation to the CFTC that it file a civil enforcement action against The Bank of New York Mellon for possible violations of the Commodity Exchange Act and CFTC regulations in connection with its relationship to Sentinel. The Bank of New York Mellon responded in writing to the CFTC on

107 BNY Mellon

Notes to Consolidated Financial Statements (continued)

Jan. 29, 2010 and provided an explanation as to why an enforcement action is unwarranted.

Securities Lending Matters

BNY Mellon or its affiliates have been named as defendants in a number of lawsuits initiated by participants in BNY Mellon's securities lending program, which is a part of BNY Mellon's Investment Services business. The lawsuits were filed on various dates from 2009 to 2013, and are currently pending in courts in North Carolina and Illinois. The complaints assert contractual, statutory, and common law claims, including claims for negligence and breach of fiduciary duty. The plaintiffs allege that BNY Mellon should have prevented losses in connection with the investment of securities lending collateral in Lehman Brothers Holdings, Inc., and seek damages as to those losses. The lawsuits are all in discovery phases; no trial dates have been set.

Foreign Exchange Matters

Beginning in December 2009, government authorities have been conducting inquiries seeking information relating primarily to standing instruction foreign exchange transactions in connection with custody services BNY Mellon provides to public pension plans and certain other custody clients. BNY Mellon has cooperated with these inquiries.

In addition, on Oct. 4, 2011, the New York Attorney General's Office ("NYAG"), the New York City Comptroller and various city pension and benefit funds filed a lawsuit asserting claims under the Martin Act and state and city false claims acts. On Aug. 5, 2013, the court dismissed the false claims act claims, and certain plaintiffs have since filed a notice of appeal. Also, on Oct. 4, 2011, the United States Department of Justice ("DOJ") filed a civil lawsuit seeking civil penalties under 12 U.S.C. Section 1833a and injunctive relief under 18 U.S.C. Section 1345 based on alleged ongoing violations of 18 U.S.C. Sections 1341 and 1343 (mail and wire fraud). On Jan. 17, 2012, the court approved a partial settlement resolving the DOJ's claim for injunctive relief. In October 2011, several public pension funds in the state of California purported to intervene in a qui tam lawsuit that was removed to federal district court in California. On March 30, 2012, the court dismissed certain of plaintiffs' claims, including all claims under the California False Claims Act. Certain plaintiffs refiled their claims and, on May 1, 2014, the court again dismissed the California False Claims Act claims, along with certain other claims.

BNY Mellon has also been named as a defendant in several putative class action federal lawsuits filed on various dates in 2011, 2012 and 2014. The complaints, which assert claims including breach of contract and ERISA and securities laws violations, all allege that the prices BNY Mellon charged for standing instruction foreign exchange transactions executed in connection with custody services provided by BNY Mellon were improper. In addition, BNY Mellon has been named as a nominal defendant in several derivative lawsuits filed in 2011 and 2012 in state and federal court in New York. On July 2, 2013, the court in the consolidated federal derivative action dismissed all of plaintiffs' claims. On Oct. 1, 2013, the court in the consolidated state derivative action dismissed all of plaintiffs' claims. One of the plaintiffs appealed and the dismissal was affirmed on Dec. 11, 2014. To the extent the lawsuits are pending in federal court, they are being coordinated for pre-trial purposes in federal court in New York.

On March 19, 2015, BNY Mellon announced that it has resolved substantially all of the FX-related actions currently pending, resulting in a total of \$714 million in settlement payments, which are fully covered by preexisting reserves. BNY Mellon reached settlements with the DOJ and NYAG under which it will pay each of them \$167.5 million and provide functionality allowing customers to compare pricing for BNY Mellon's "defined spread" and "session range" standing instruction FX products. In addition, BNY Mellon reached settlements with the plaintiffs in the outstanding customer class actions, as well as with the U.S. Department of Labor ("DOL"). BNY Mellon will pay \$335 million under the class action settlement, which is subject to court approval, and an additional \$14 million to the DOL. BNY Mellon has also reached a settlement in principle with the SEC. Under the terms of the agreement with the SEC staff, which is subject to Commission approval, BNY Mellon will pay a \$30 million penalty. The putative class action asserting securities law violations, along with two lawsuits brought by individual FX customers, remain pending.

Tax Litigation

On Aug. 17, 2009, BNY Mellon received a Statutory Notice of Deficiency disallowing tax benefits for the 2001 and 2002 tax years in connection with a 2001 transaction that involved the payment of UK corporate income taxes that were credited against BNY Mellon's U.S. corporate income tax liability. The Notice alleged that the transaction lacked

BNY Mellon 108

Notes to Consolidated Financial Statements (continued)

economic substance and business purpose. On Nov. 10, 2009, BNY Mellon filed a petition with the U.S. Tax Court contesting the disallowance of the benefits. Following a trial, the Tax Court upheld the IRS's Notice of Deficiency and disallowed BNY Mellon's tax credits and associated transaction costs on Feb. 11, 2013. On Sept. 23, 2013, the Tax Court issued a supplemental opinion, partially reducing the tax implications to BNY Mellon of its earlier decision. The Tax Court entered a decision formally implementing its prior rulings on Feb. 20, 2014. BNY Mellon appealed the decision to the Second Circuit Court of Appeals on March 5, 2014. Argument on the appeal is scheduled for May 18, 2015. See Note 10 of the Notes to Consolidated Financial Statements for additional information.

Mortgage-Securitization Trusts Proceedings

The Bank of New York Mellon as trustee is the petitioner in a legal proceeding filed in New York State Supreme Court, New York County on June 29, 2011, seeking approval of a proposed settlement involving Bank of America Corporation, and investors in certain Countrywide residential mortgage-securitization trusts. On Jan. 31, 2014, the court issued its decision approving the settlement except to the extent that it releases loan modification claims. The court approved all the other terms of the settlement. The Bank of New York Mellon appealed the court's decision to exempt loan modification claims from the settlement approval and several objectors to the settlement cross-appealed. On March 5, 2015, the Appellate Division approved the terms of the settlement in their entirety, including the release of the loan modification claims. The Bank of New York Mellon has also been named as a defendant in a lawsuit brought in New York State court on June 18, 2014, and later re-filed in federal court, by a group of institutional investors. This lawsuit is one of a number of legal actions brought by MBS investors against The Bank of New York Mellon alleging that the trustee has expansive duties under the governing agreements, including to investigate and pursue breach of representation and warranty claims against other parties to the MBS transactions.

Matters Related to R. Allen Stanford

In late December 2005, Pershing LLC became a clearing firm for Stanford Group Co. ("SGC"), a registered broker dealer that was part of a group of entities ultimately controlled by R. Allen Stanford. Stanford International Bank ("SIB"), also controlled by Stanford, issued certificates of deposit ("CDs").

Some investors allegedly wired funds from their SGC accounts to purchase CDs. In 2009, the SEC charged Stanford with operating a Ponzi scheme in connection with the sale of CDs, and SGC was placed into receivership. Alleged purchasers of CDs have filed 11 pending lawsuits against Pershing in Texas, including a putative class action. The purchasers allege that Pershing, as SGC's clearing firm, assisted Stanford in a fraudulent scheme and assert contractual, statutory and common law claims. In addition, alleged purchasers have filed FINRA arbitration claims against Pershing in Texas, Florida, Louisiana, Mississippi, Tennessee, Arkansas, North Carolina and Georgia. On Oct. 8, 2014 and Nov. 3, 2014, Pershing received awards in its favor from two FINRA arbitration panels. On March 2, 2015, Pershing settled 38 FINRA arbitration claims; six FINRA arbitration claims remain pending.

UK Financial Conduct Authority Matter

The UK Financial Conduct Authority (the "FCA") has been conducting an investigation into compliance by The Bank of New York Mellon, London Branch and The Bank of New York Mellon (International) Limited (the "firms") with the FCA's Client Assets Sourcebook ("CASS Rules"), which sets out the regime in the UK for the protection of client interests in relation to holding or controlling client assets. On April 15, 2015, the FCA announced that it had entered into a settlement agreement with the firms in which the firms agreed to pay a fine in the amount of £126 million, after reduction for an early stage settlement, and to the issuance of a Final Notice by the FCA for failing to comply with the CASS Rules between Nov. 1, 2007 and Aug. 12, 2013.

Brazilian Postalis Litigation

BNY Mellon Servicos Financeiros DTVM S.A. ("DTVM"), a subsidiary that provides a number of asset services in Brazil, acts as administrator for certain investment funds in which the exclusive investor is a public pension fund for

postal workers called Postalis-Instituto de Seguridade Social dos Correios e Telégrafos (“Postalis”). On Aug. 22, 2014, Postalis sued DTVM in Brazil for losses related to a Postalis investment fund for which DTVM serves as fund administrator. Postalis alleges that DTVM failed to properly perform alleged duties, including duties to conduct due diligence of and exert control over the fund manager, Atlântica Administração de Recursos (“Atlântica”), and Atlântica’s investments. On March 12, 2015, Postalis filed a lawsuit in Brazil against DTVM and BNY Mellon Administração de

109 BNY Mellon

Notes to Consolidated Financial Statements (continued)

Ativos Ltda. (“Ativos”) alleging failure to properly perform alleged duties relating to another fund of which DTVM is administrator and Ativos is investment manager.

Sovereign Wealth Funds Inquiry

In January 2011, the Enforcement Division of the U.S. Securities and Exchange Commission (the “SEC Staff”) informed several financial institutions, including BNY Mellon, that it had commenced an inquiry into certain of their business practices and relationships with sovereign wealth fund clients. In the third quarter of 2014, the SEC Staff issued Wells notices to certain current and former employees of BNY Mellon, informing them that the SEC Staff has made a preliminary determination to recommend enforcement action against them for alleged violations of the U.S. Foreign Corrupt Practices Act in connection with the provision of a limited number of internships to relatives of sovereign wealth fund officials. BNY Mellon received a similar Wells notice in the fourth quarter of 2014. On Jan. 23, 2015, BNY Mellon received an additional subpoena from the SEC expanding the scope of the SEC’s inquiry into the provision of internships and employment opportunities offered to officials and relatives of officials at government-related entities.

BNY Mellon has fully cooperated with the SEC Staff’s investigation.

Note 18 - Lines of businesses

We have an internal information system that produces performance data along product and services lines for our two principal businesses and the Other segment.

Business accounting principles

Our business data has been determined on an internal management basis of accounting, rather than the generally accepted accounting principles used for consolidated financial reporting. These measurement principles are designed so that reported results of the businesses will track their economic performance.

Business results are subject to reclassification when organizational changes are made or whenever improvements are made in the measurement principles.

The accounting policies of the businesses are the same as those described in Note 1 of the Notes to Consolidated Financial Statements in our 2014 Annual Report.

The primary types of revenue for our two principal businesses and the Other segment are presented below:

| | |
|-----------------------|---|
| Business | Primary types of revenue |
| | Investment management and performance fees from: |
| | Mutual funds |
| Investment Management | Institutional clients |
| | Private clients |
| | High-net-worth individuals and families, endowments and foundations and related entities |
| | Distribution and servicing fees |
| Investment Services | Asset servicing fees, including institutional trust and custody fees, broker-dealer services, global collateral services and securities lending |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Issuer services fees, including Corporate Trust and Depositary Receipts
Clearing services fees, including broker-dealer services, registered investment advisor
services and prime brokerage services
Treasury services fees, including global payment services and working capital solutions
Foreign exchange
Credit-related activities
Leasing operations
Other segment Corporate treasury activities
Global markets and institutional banking services
Business exits

BNY Mellon 110

Notes to Consolidated Financial Statements (continued)

The results of our businesses are presented and analyzed on an internal management reporting basis:

Revenue amounts reflect fee and other revenue generated by each business. Fee and other revenue transferred between businesses under revenue transfer agreements is included within other revenue in each business. Revenues and expenses associated with specific client bases are included in those businesses. For example, foreign exchange activity associated with clients using custody products is allocated to Investment Services. Net interest revenue is allocated to businesses based on the yields on the assets and liabilities generated by each business. We employ a funds transfer pricing system that matches funds with the specific assets and liabilities of each business based on their interest sensitivity and maturity characteristics. Incentive expense related to restricted stock and certain corporate overhead charges are allocated to the businesses. Support and other indirect expenses are allocated to businesses based on internally-developed methodologies. Recurring FDIC expense is allocated to the businesses based on average deposits generated within each business.

Litigation expense is generally recorded in the business in which the charge occurs.

Management of the investment securities portfolio is a shared service contained in the Other segment. As a result, gains and losses associated with the valuation of the securities portfolio are included in the Other segment.

Client deposits serve as the primary funding source for our investment securities portfolio. We typically allocate all interest revenue to the businesses generating the deposits. Accordingly, accretion related to the portion of the investment securities portfolio restructured in 2009 has been included in the results of the businesses.

M&I expense is a corporate level item and is recorded in the Other segment.

Restructuring charges recorded in 2014 relate to corporate-level initiatives and were therefore recorded in the Other segment. In the fourth quarter of 2013, restructuring charges were recorded in the businesses. Prior to the fourth quarter of 2013, restructuring charges were reported in the Other segment.

Balance sheet assets and liabilities and their related income or expense are specifically assigned to each business.

Businesses with a net liability position have been allocated assets.

Goodwill and intangible assets are reflected within individual businesses.

The following consolidating schedules show the contribution of our businesses to our overall profitability.

| For the quarter ended March 31, 2015 (dollar amounts in millions) | Investment Management | Investment Services | Other | Consolidated |
|--|--------------------------|------------------------|-----------|--------------|
| Fee and other revenue | \$ 936 | (a) \$ 1,993 | \$ 104 | \$ 3,033 (a) |
| Net interest revenue | 74 | 600 | 54 | 728 |
| Total revenue | 1,010 | (a) 2,593 | 158 | 3,761 (a) |
| Provision for credit losses | — | — | 2 | 2 |
| Noninterest expense | 746 | 1,838 | 116 | 2,700 |
| Income before taxes | \$ 264 | (a) \$ 755 | \$ 40 | \$ 1,059 (a) |
| Pre-tax operating margin (b) | 26 % | 29 % | N/M | 28 % |
| Average assets | \$ 37,496 | \$ 284,978 | \$ 52,416 | \$ 374,890 |

Both total fee and other revenue and total revenue include the net income from consolidated investment (a) management funds of \$31 million, representing \$121 million of income and noncontrolling interests of \$90 million.

Income before taxes is net of noncontrolling interests of \$90 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

111 BNY Mellon

Notes to Consolidated Financial Statements (continued)

| For the quarter ended Dec. 31, 2014 (dollar amounts in millions) | Investment Management | Investment Services | Other | Consolidated |
|---|--------------------------|------------------------|-----------|--------------|
| Fee and other revenue | \$ 929 (a) | \$ 1,907 | \$ 117 | \$ 2,953 (a) |
| Net interest revenue | 69 | 574 | 69 | 712 |
| Total revenue | 998 (a) | 2,481 | 186 | 3,665 (a) |
| Provision for credit losses | — | — | 1 | 1 |
| Noninterest expense | 759 | 2,555 | 210 | 3,524 |
| Income (loss) before taxes | \$ 239 (a) | \$(74) | \$(25) | \$ 140 (a) |
| Pre-tax operating margin (b) | 24 % | (3)% | N/M | 4 % |
| Average assets | \$ 37,286 | \$ 276,586 | \$ 71,360 | \$ 385,232 |

Both total fee and other revenue and total revenue include the net income from consolidated investment (a) management funds of \$18 million, representing \$42 million of income and noncontrolling interests of \$24 million.

Income before taxes is net of noncontrolling interests of \$24 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

| For the quarter ended March 31, 2014 (dollar amounts in millions) | Investment Management | Investment Services | Other | Consolidated |
|--|--------------------------|------------------------|-----------|--------------|
| Fee and other revenue | \$ 900 (a) | \$ 1,887 | \$ 112 | \$ 2,899 (a) |
| Net interest revenue | 70 | 590 | 68 | 728 |
| Total revenue | 970 (a) | 2,477 | 180 | 3,627 (a) |
| Provision for credit losses | — | — | (18) | (18) |
| Noninterest expense | 724 | 1,822 | 193 | 2,739 |
| Income before taxes | \$ 246 (a) | \$ 655 | \$ 5 | \$ 906 (a) |
| Pre-tax operating margin (b) | 25 % | 26 % | N/M | 25 % |
| Average assets | \$ 39,463 | \$ 258,470 | \$ 57,059 | \$ 354,992 |

Both total fee and other revenue and total revenue include the net income from consolidated investment (a) management funds of \$16 million, representing \$36 million of income and noncontrolling interests of \$20 million.

Income before taxes is net of noncontrolling interests of \$20 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

Note 19 - Supplemental information to the Consolidated Statement of Cash Flows

Noncash investing and financing transactions that, appropriately, are not reflected in the Consolidated Statement of Cash Flows are listed below.

| Noncash investing and financing transactions (in millions) | Three months ended March 31, | |
|---|---------------------------------|-------|
| | 2015 | 2014 |
| Transfers from loans to other assets for other real estate owned ("OREO") | \$ 2 | \$ 1 |
| Change in assets of consolidated VIEs | 857 | 179 |
| Change in liabilities of consolidated VIEs | 1,049 | 27 |
| Change in noncontrolling interests of consolidated VIEs | 304 | 12 |
| Securities not settled | 1,177 | 1,167 |
| Available-for-sale securities transferred to held-to-maturity | 11,602 | — |

BNY Mellon 112

Item 4. Controls and Procedures

Disclosure controls and procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, with participation by the members of the Disclosure Committee, has responsibility for ensuring that there is an adequate and effective process for establishing, maintaining, and evaluating disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in our SEC reports is timely recorded, processed, summarized and reported and that information required to be disclosed by BNY Mellon is accumulated and communicated to BNY Mellon's management to allow timely decisions regarding the required disclosure. In addition, our ethics hotline can also be used by employees and others for the anonymous communication of concerns about financial controls or reporting matters. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

As previously disclosed, we reviewed our process for the reporting of information in our public filings and we have instituted ongoing enhancements to the data collection processes and systems relating to AUC/A and other information in our public filings.

Changes in internal control over financial reporting

In the ordinary course of business, we may routinely modify, upgrade or enhance our internal controls and procedures for financial reporting. There have not been any changes in our internal controls over financial reporting as defined in Rule 13a-15(f) of the Exchange Act during the first quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Forward-looking Statements

Some statements in this document are forward-looking. These include all statements about the usefulness of Non-GAAP measures, the future results of BNY Mellon, our businesses, financial and capital condition, results of operations, goals, strategies, outlook, objectives, expectations (including those regarding regulatory, market, economic or accounting developments, legal proceedings and other contingencies), estimates (including those regarding capital ratios), intentions, targets, opportunities and initiatives.

In this report, any other report, any press release or any written or oral statement that BNY Mellon or its executives may make, words, such as “estimate,” “forecast,” “project,” “anticipate,” “target,” “expect,” “intend,” “continue,” “seek,” “believe,” “goal,” “could,” “should,” “would,” “may,” “will,” “strategy,” “synergies,” “opportunities,” “trends” and words of similar meaning signify forward-looking statements.

Actual results may differ materially from those expressed or implied as a result of a number of factors, including those discussed in the “Risk Factors” section of this Annual Report, such as: a technology disruption or information security event that results in a loss of confidential client information or impacts our ability to provide services to our clients; failure to update our technology, develop and market new technology or protect our intellectual property; government regulation and supervision, and recent legislative and regulatory actions; failure to satisfy regulatory standards, including capital adequacy rules; the risks relating to new lines of business, new products and services or strategic project initiatives; failure to attract and retain employees; regulatory actions or litigation; adverse publicity, government scrutiny or other reputational harm; continued litigation and regulatory investigations and proceedings involving our foreign exchange standing instruction program; failure of our risk management framework to be effective; operational risk; failure or circumvention of our controls and procedures; change or uncertainty in monetary, tax and other governmental policies; competition in all aspects of our business; political, economic, legal, operational and other risks inherent in operating globally; acts of terrorism, natural disasters, pandemics and global conflicts; the risks and uncertainties relating to our strategic transactions; ongoing concerns about the financial stability of some countries in Europe, the failure or instability of

any of our significant counterparties in Europe, or a breakup of the Eurozone; continuing uncertainty in financial markets and weakness in the economy generally; continuing low or volatile interest rates; market volatility; write-downs of securities that we own and other losses related to volatile and illiquid market conditions; our dependence on fee-based business for a substantial majority of our revenue and the potential adverse effects of a slowing in market activity, weak financial markets, underperformance and/or negative trends in savings rates or in investment preferences; the impact of decreased cross-border investment activity on our foreign exchange revenues; any material reduction in our credit ratings or the credit ratings of certain of our bank subsidiaries; the failure or instability of any of our significant counterparties, and our assumption of credit and counterparty risk; credit, regulatory and reputation risks as a result of our tri-party repo collateral agency services; the impact of not effectively managing our liquidity; inadequate reserves for credit losses, including loan reserves; tax law changes or challenges to our tax positions; changes in accounting standards; risks associated with being a holding company, including our dependence on dividends from our subsidiaries; and the impact of provisions of U.S. banking laws and regulations, Delaware law or failure to pay full and timely dividends on our preferred stock on our ability to return capital to shareholders.

Investors should consider all risks in our 2014 Annual Report and any subsequent reports filed with the SEC by BNY Mellon pursuant to the Exchange Act. All forward-looking statements speak only as of the date on which such statements are made, and BNY Mellon undertakes no obligation to update any statement to reflect events or circumstances after the date on which such forward-looking statement is made or to reflect the occurrence of unanticipated events. The contents of BNY Mellon’s website or any other websites referenced herein are not part of this report.

BNY Mellon 114

Part II - Other Information

Item 1. Legal Proceedings

The information required by this Item is set forth in the "Legal proceedings" section in Note 17 of the Notes to Consolidated Financial Statements, which portion is incorporated herein by reference in response to this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table discloses repurchases of our common stock made in the first quarter of 2015. All of the (c) Company's preferred stock outstanding has preference over the Company's common stock with respect to the payment of dividends.

Issuer purchases of equity securities

Share repurchases - first quarter of 2015

| (dollars in millions, except per share information; common shares in thousands) | Total shares repurchased | Average price per share | Total shares repurchased as part of a publicly announced plan or program | Maximum approximate dollar value of shares that may yet be purchased under the publicly announced plans or programs at March 31, 2015 |
|---|--------------------------|-------------------------|--|---|
| January 2015 | 4,772 | \$ 38.56 | 4,772 | \$241 |
| February 2015 | 3,906 | 39.20 | 3,906 | 88 |
| March 2015 | 1,615 | 38.86 | 1,615 | 25 |
| First quarter of 2015 (a) | 10,293 | 38.85 | 10,293 | 3,100 (b) |

Includes 4 million shares repurchased at a purchase price of \$157 million from employees, primarily in connection (a) with the employees' payment of taxes upon the vesting of restricted stock. The average price per share of open market purchases was \$36.14.

Represents the maximum value of the shares authorized to be repurchased through the second quarter of 2016, (b) including employee benefit plan repurchases, in connection with the Federal Reserve's non-objection to our 2015 capital plan.

On March 26, 2014, in connection with the Federal Reserve's non-objection to our 2014 capital plan, the Board of Directors authorized a stock purchase program providing for the repurchase of an aggregate of \$1.74 billion of common stock beginning in the second quarter of 2014 and continuing through the first quarter of 2015.

On March 11, 2015, in connection with the Federal Reserve's non-objection to our 2015 capital plan, BNY Mellon announced a new stock purchase program providing for the repurchase of an aggregate of \$3.1 billion of common stock, of which \$700 million are contingent on a prior issuance of \$1 billion of qualifying preferred stock, which the Company completed on April 28, 2015. The 2015 capital plan begins in the second quarter of 2015 and continues through the second quarter of 2016.

Share repurchases may be executed through repurchase plans designed to comply with Rule 10b5-1 and through derivative, accelerated share repurchase and other structured transactions.

Item 6. Exhibits

Pursuant to the rules and regulations of the SEC, BNY Mellon has filed certain agreements as exhibits to this Quarterly Report on Form 10-Q. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in BNY Mellon's public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof and should not be relied upon.

The list of exhibits required to be filed as exhibits to this report appears on page 117 hereof, under "Index to Exhibits", which is incorporated herein by reference.

115 BNY Mellon

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE BANK OF NEW YORK MELLON CORPORATION
(Registrant)

Date: May 8, 2015

By: /s/ Kurtis R. Kurimsky
Kurtis R. Kurimsky
Acting Corporate Controller
(Duly Authorized Officer and
Principal Accounting Officer of
the Registrant)

BNY Mellon 116

Index to Exhibits

| Exhibit No. | Description | Method of Filing |
|-------------|---|--|
| 2.1 | Amended and Restated Agreement and Plan of Merger, dated as of Dec. 3, 2006, as amended and restated as of Feb. 23, 2007, and as further amended and restated as of March 30, 2007, between The Bank of New York Company, Inc., Mellon Financial Corporation and The Bank of New York Mellon Corporation (the "Company"). | Previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (File Nos. 000-52710) as filed with the Commission on July 2, 2007, and incorporated herein by reference. |
| 3.1 | Restated Certificate of Incorporation of The Bank of New York Mellon Corporation. | Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File Nos. 000-52710) as filed with the Commission on July 2, 2007, and incorporated herein by reference. |
| 3.2 | Certificate of Designations of The Bank of New York Mellon Corporation with respect to Series A Noncumulative Preferred Stock, dated June 15, 2007. | Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on July 5, 2007, and incorporated herein by reference. |
| 3.3 | Certificate of Designations of The Bank of New York Mellon Corporation with respect to Series C Noncumulative Perpetual Preferred Stock, dated Sept. 13, 2012. | Previously filed as Exhibit 3.2 to the Company's Registration Statement on Form 8A12B (File No. 001-35651) as filed with the Commission on Sept. 14, 2012, and incorporated herein by reference. |
| 3.4 | Certificate of Designations of The Bank of New York Mellon Corporation with respect to the Series D Noncumulative Perpetual Preferred Stock, dated May 16, 2013. | Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-35651) as filed with the Commission on May 16, 2013, and incorporated herein by reference. |
| 3.5 | Certificate of Designations of The Bank of New York Mellon Corporation with respect to the Series E Noncumulative Perpetual Preferred Stock, dated April 27, 2015. | Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-35651) as filed with the Commission on April 28, 2015, and incorporated herein by reference. |
| 3.6 | Amended and Restated By-Laws of The Bank of New York Mellon Corporation, as amended and restated on March 5, 2015. | Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-35651) as filed with the Commission on March 6, 2015, and incorporated herein by reference. |
| 4.1 | | N/A |

None of the instruments defining the rights of holders of long-term debt of the Parent or any of its subsidiaries represented long-term debt in excess of 10% of the total assets of the Company as of March 31, 2015. The Company hereby agrees to furnish to the Commission, upon request, a copy of any such instrument.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Index to Exhibits (continued)

| Exhibit No. | Description | Method of Filing |
|-------------|---|---------------------|
| 12.1 | Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends. | Filed herewith. |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith. |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith. |
| 101.INS | XBRL Instance Document. | Filed herewith. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. | Filed herewith. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. | Filed herewith. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. | Filed herewith. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. | Filed herewith. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. | Filed herewith. |

BNY Mellon 118