Bank of New York Mellon Corp
Form 10-Q
November 06, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 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 | 13-2614959 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

225 Liberty 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 X 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 X 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.

| | |
|---|---|
| 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 Sept. 30, 2015 |
|---|---|
| Common Stock, $0.01 par value | 1,092,952,592 |

THE BANK OF NEW YORK MELLON CORPORATION

Third Quarter 2015 Form 10-Q
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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 Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 | Year-to-date Sept. 30, 2015 | Sept. 30, 2014 |
|---|---|---|---|---|---|
| Results applicable to common shareholders of The Bank of New York Mellon Corporation: | | | | | |
| Net income | $820 | $830 | $1,070 | $2,416 | $2,285 |
| Basic earnings per share | 0.74 | 0.74 | 0.93 | 2.15 | 1.98 |
| Diluted earnings per share | 0.74 | 0.73 | 0.93 | 2.13 | 1.97 |
| | | | | | |
| Fee and other revenue | $3,053 | $3,067 | $3,851 | $9,132 | $9,714 |
| (Loss) income from consolidated investment management funds | (22) | 40 | 39 | 70 | 121 |
| Net interest revenue | 759 | 779 | 721 | 2,266 | 2,168 |
| Total revenue | $3,790 | $3,886 | $4,611 | $11,468 | $12,003 |
| | | | | | |
| Return on common equity (annualized) (a) | 9.1% | 9.4% | 11.6% | 9.1% | 8.4% |
| Non-GAAP (a)(b) | 9.7% | 10.3% | 8.5% | 9.7% | 8.2% |
| | | | | | |
| Return on tangible common equity (annualized) – Non-GAAP (a) | 20.8% | 21.5% | 26.2% | 20.9% | 19.6% |
| Non-GAAP adjusted (a)(b) | 21.0% | 22.5% | 18.4% | 21.2% | 18.1% |
| | | | | | |
| Return on average assets (annualized) | 0.87% | 0.88% | 1.12% | 0.86% | 0.83% |
| | | | | | |
| Fee revenue as a percentage of total revenue excluding net securities gains | 80% | 79% | 83% | 80% | 81% |
| | | | | | |
| Percentage of non-U.S. total revenue (c) | 37% | 36% | 43% | 37% | 39% |
| | | | | | |
| Pre-tax operating margin (a) | 29% | 30% | 36% | 29% | 28% |
| Non-GAAP (a)(b) | 31% | 33% | 29% | 31% | 28% |
| | | | | | |
| Net interest margin (FTE) | 0.98% | 1.00% | 0.94% | 0.98% | 0.99% |
| | | | | | |
| Assets under management at period end (in billions) (d) | $1,625 | $1,700 | $1,620 | $1,625 | $1,620 |
| Assets under custody and/or administration ("AUC/A") at period end (in trillions) (e) | $28.5 | $28.6 | $28.3 | $28.5 | $28.3 |
| Market value of securities on loan at period end (in billions) (f) | $288 | $283 | $282 | $288 | $282 |
| | | | | | |
| Average common shares and equivalents outstanding (in thousands): | | | | | |
| Basic | 1,098,003 | 1,113,790 | 1,126,946 | 1,110,056 | 1,133,006 |
| Diluted | 1,105,645 | 1,122,135 | 1,134,871 | 1,117,975 | 1,139,718 |

Capital ratios

| | Sept. 30, 2015 | | June 30, 2015 | | Dec. 31, 2014 | |
|---|---|---|---|---|---|---|
| Consolidated regulatory capital ratios: (g) | | | | | | |
| Common equity Tier 1 (“CET1”) ratio | 10.5 | % | 10.9 | % | 11.2 | % |
| Tier 1 capital ratio | 11.9 | % | 12.5 | % | 12.2 | % |
| Total (Tier 1 plus Tier 2) capital ratio | 12.2 | % | 12.8 | % | 12.5 | % |
| Leverage capital ratio | 5.9 | % | 5.8 | % | 5.6 | % |
| | | | | | | |
| BNY Mellon shareholders’ equity to total assets ratio – GAAP (a) | 10.1 | % | 9.7 | % | 9.7 | % |
| BNY Mellon common shareholders’ equity to total assets ratio – GAAP (a) | 9.4 | % | 9.0 | % | 9.3 | % |
| BNY Mellon tangible common shareholders’ equity to tangible assets of operations ratio – Non-GAAP (a) | 6.2 | % | 6.2 | % | 6.5 | % |
| | | | | | | |
| Selected regulatory capital ratios – fully phased-in – Non-GAAP: | | | | | | |
| Estimated CET1 ratio: (h) | | | | | | |
| Standardized Approach | 9.9 | % | 10.0 | % | 10.6 | % |
| Advanced Approach | 9.3 | % | 9.9 | % | 9.8 | % |
| | | | | | | |
| Estimated supplementary leverage ratio (“SLR”) (i) | 4.8 | % | 4.6 | % | 4.4 | % |

Consolidated Financial Highlights (unaudited) (continued)

| (dollar amounts in millions, except per common share amounts and unless otherwise noted) | Quarter ended Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 | Year-to-date Sept. 30, 2015 | Sept. 30, 2014 |
|---|---|---|---|---|---|
| Selected average balances | | | | | |
| Interest-earning assets | $315,672 | $318,596 | $311,603 | $314,152 | $299,064 |
| Assets of operations | $371,328 | $375,999 | $370,167 | $371,156 | $357,301 |
| Total assets | $373,453 | $378,279 | $380,409 | $373,400 | $368,297 |
| Interest-bearing deposits | $169,753 | $170,716 | $164,233 | $166,700 | $160,006 |
| Noninterest-bearing deposits | $85,046 | $84,890 | $82,334 | $86,493 | $80,531 |
| Preferred stock | $2,552 | $2,313 | $1,562 | $2,146 | $1,562 |
| Total The Bank of New York Mellon Corporation common shareholders' equity | $35,588 | $35,516 | $36,751 | $35,530 | $36,537 |
| | | | | | |
| Other information at period end | | | | | |
| Cash dividends per common share | $0.17 | $0.17 | $0.17 | $0.51 | $0.49 |
| Common dividend payout ratio | 23 % | 23 % | 18 % | 24 % | 25 % |
| Common dividend yield (annualized) | 1.7 % | 1.6 % | 1.7 % | 1.7 % | 1.7 % |
| Closing stock price per common share | $39.15 | $41.97 | $38.73 | $39.15 | $38.73 |
| Market capitalization | $42,789 | $46,441 | $43,599 | $42,789 | $43,599 |
| Book value per common share – GAAP (a) | $32.59 | $32.28 | $32.77 | $32.59 | $32.77 |
| Tangible book value per common share – Non-GAAP (a) | $15.16 | $14.86 | $15.30 | $15.16 | $15.30 |
| Full-time employees | 51,300 | 50,700 | 50,900 | 51,300 | 50,900 |
| Common shares outstanding (in thousands) | 1,092,953 | 1,106,518 | 1,125,710 | 1,092,953 | 1,125,710 |

(a) See "Supplemental information – Explanation of GAAP and Non-GAAP financial measures" beginning on page 52 for a reconciliation of Non-GAAP measures.

(b) Non-GAAP excludes the gains on the sales of our equity investment in Wing Hang Bank Limited ("Wing Hang") and our One Wall Street building, net (loss) income attributable to noncontrolling interests of consolidated investment management funds, amortization of intangible assets, M&I, litigation and restructuring charges (recoveries) and the charge related to investment management funds, net of incentives, 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. In the third quarter of 2015, prior period AUM was restated to reflect the reclassification of Meriten from the Investment Management business to the Other segment.

(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 $1.0 trillion at Sept. 30, 2015, $1.1 trillion at June 30, 2015 and $1.2 trillion at Sept. 30, 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 $61 billion at Sept. 30, 2015, $68 billion at June 30, 2015 and $65 billion at Sept. 30, 2014.

(g) The CET1, Tier 1 and Total risk-based consolidated regulatory capital ratios are based on Basel III components of capital, as phased-in, and credit risk asset risk-weightings using the U.S. capital rules' advanced approaches framework (the "Advanced Approach"). The leverage capital ratios are based on Basel III's definition of Tier 1 capital, as phased-in, and quarterly average total assets. For additional information on these ratios, see "Capital" beginning on page 42.

(h) The estimated fully phased-in CET1 ratios (Non-GAAP) are based on our interpretation of U.S. 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 42.

(i)

The estimated fully phased-in SLR (Non-GAAP) is based on our interpretation of the U.S. capital rules. When the SLR becomes effective, we expect to maintain an SLR of over 5%. The minimum required SLR is 3% and there is a 2% buffer, in addition to the minimum, that is applicable to U.S. global systemically important banks (“G-SIBs”). For additional information on these Non-GAAP ratios, see “Capital” beginning on page 42.

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 refe 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 the 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 revenue and 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 52 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 U.S. capital rules.

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 Sept. 30, 2015, BNY Mellon had $28.5 trillion in assets under custody and/or administration, and $1.6 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 third quarter 2015 and subsequent events

Corporate Headquarters

On Oct. 1, 2015, BNY Mellon relocated its corporate headquarters to Brookfield Place in lower Manhattan's Battery Park City. This move is part of the Company's previously-announced decision to consolidate and streamline operations. The previous corporate headquarters was located at One Wall Street in lower Manhattan, which was sold in the third quarter of 2014.

SunGard matter

In August 2015, the SunGard U.S. InvestOne fund accounting platform environment we use to process net asset values ("NAVs") became corrupted during an operating system upgrade undertaken by SunGard, impacting certain mutual fund, exchange-traded fund and unregistered collective fund clients. The resulting outage delayed or prevented us from being able to deliver system-generated NAVs and client reports to these clients in a timely manner during the

week of Aug. 24-28, 2015. During the period when system-generated NAVs were delayed, we were generally able to provide our fund clients with daily NAVs using alternative procedures, as directed by them. System-generated NAVs returned to daily production on Monday, Aug. 31, 2015.

Sale of Meriten Investment Management

On July 31, 2015, BNY Mellon completed the sale of Meriten Investment Management GmbH, a German-based investment management boutique with approximately $23 billion in assets under management.

Outsourcing agreement

As announced on June 2, 2015, BNY Mellon was selected to provide portfolio and fund accounting services to support T. Rowe Price’s investment operation, which had assets valued in excess of $770 billion as of March 31, 2015. In addition to supporting T. Rowe Price’s portfolio accounting services through our Eagle/OnCore platform, BNY Mellon is providing a range of fund accounting and administration services.

In August 2015, approximately 220 T. Rowe Price associates – the majority based in the Baltimore area – became BNY Mellon employees.

Highlights of third quarter 2015 results

We reported net income applicable to common shareholders of $820 million, or $0.74 per diluted common share, in the third quarter of 2015. In the third quarter of 2014, net income applicable to common shareholders was $1.1 billion, or $0.93 per diluted common share, or $734 million, or $0.64 per diluted common share (Non-GAAP), adjusted for gains related to the sales of our equity investment in Wing Hang and our One Wall Street building, net of litigation and restructuring charges. In the second quarter of 2015, net income applicable to common shareholders totaled $830 million, or $0.73 per diluted common share, or $868 million or $0.77 per diluted common share (Non-GAAP), adjusted for litigation and restructuring charges. See “Supplemental information - Explanation of GAAP and Non-GAAP financial measures” beginning on page 52 for the reconciliation of Non-GAAP measures.

Highlights of the third quarter of 2015 include:

- AUC/A totaled $28.5 trillion compared with $28.3 trillion at Sept. 30, 2014. The increase primarily reflects net new business, partially offset by the unfavorable impact of a stronger U.S. dollar and lower equity market values. (See “Investment Services business” beginning on page 21).
- AUM, excluding securities lending cash management assets and assets managed in the Investment Services business, totaled $1.63 trillion compared with $1.62 trillion at Sept. 30, 2014. The increase resulted from higher market values, the Cutwater acquisition and net new business offset by the unfavorable impact of a stronger U.S. dollar. (See “Investment Management business” beginning on page 18).
- Investment services fees totaled $1.85 billion, an increase of 2% compared with $1.82 billion in the third quarter of 2014. The increase reflects net new business and organic growth, primarily in Global Collateral Services, Broker-Dealer Services and Asset Servicing, and higher clearing services revenue, partially offset by the unfavorable impact of a stronger U.S. dollar. (See “Investment Services business” beginning on page 21).
- Investment management and performance fees totaled $829 million compared with $881 million in the third quarter of 2014, a decrease of 6%, or a decrease of 2% on a constant currency basis (Non-GAAP). The decrease was primarily driven by lower performance fees, lower equity market values, net outflows and the sale of Meriten, partially offset by the impact of the acquisition of Cutwater Asset Management (“Cutwater”) in the first quarter of 2015 and strategic initiatives. (See “Investment Management business” beginning on page 18).
- 

Foreign exchange and other trading revenue totaled $179 million compared with $153 million in the third quarter of 2014. Foreign exchange revenue totaled $180 million, an increase of 17% compared with $154 million in the third quarter of 2014. The increase was driven by higher volatility and volumes. (See “Fee and other revenue” beginning on page 7).

- Financing-related fees totaled $71 million compared with $44 million in the third quarter of 2014. The increase was primarily driven by higher fees related to secured intraday credit provided to dealers in connection with their tri-party repo activity and higher underwriting fees. (See “Fee and other revenue” beginning on page 7).
- Investment and other income totaled $59 million compared with $890 million in the third quarter of 2014. The decrease primarily reflects gains on the sales of our equity investment in Wing Hang and our One Wall Street building in the third quarter of 2014. (See “Fee and other revenue” beginning on page 7).
- Net interest revenue totaled $759 million compared with $721 million in the third quarter of 2014. The increase primarily reflects higher securities and loans due to higher deposits and a shift out of cash, and lower interest expense on deposits. (See “Net interest revenue” beginning on page 10).
- The provision for credit losses was $1 million in the third quarter of 2015 and a credit of $19 million in the third quarter of 2014. (See “Asset quality and allowance for credit losses” beginning on page 34).

- Noninterest expense totaled $2.68 billion compared with $2.97 billion in the third quarter of 2014. The decrease reflects lower expenses in all categories, except other expense. The lower expenses primarily reflect the favorable impact of a stronger U.S. dollar, lower legal and consulting expenses and the benefit of the business improvement process which focuses on reducing structural costs. The decrease was partially offset by higher consulting expenses associated with regulatory requirements. (See “Noninterest expense” beginning on page 13).
- The provision for income taxes was $282 million (25.4% effective tax rate). (See “Income taxes” on page 14).
- The net unrealized pre-tax gain on the investment securities portfolio was $1.0 billion compared with $752 million at June 30, 2015. The increase was primarily driven by a decline in interest rates. (See “Investment securities” beginning on page 29).
- Our estimated CET1 ratio (Non-GAAP) calculated under the Advanced Approach on a fully phased-in basis was 9.3% at Sept. 30, 2015 and 9.9% at June 30, 2015. Our estimated CET1 ratio (Non-GAAP) calculated under the Standardized Approach on a fully phased-in basis was 9.9% at Sept. 30, 2015 and 10.0% at June 30, 2015. (See “Capital” beginning on page 42).

Fee and other revenue

| Fee and other revenue | | | | 3Q15 vs. | | Year-to-date | | YTD15 vs. |
|---|---|---|---|---|---|---|---|---|
| (dollars in millions, unless otherwise noted) | 3Q15 | 2Q15 | 3Q14 | 2Q15 | 3Q14 | 2015 | 2014 | YTD14 |
| Investment services fees: | | | | | | | | |
| Asset servicing (a) | $1,057 | $1,060 | $1,025 | — % | 3 % | $3,155 | $3,056 | 3 % |
| Clearing services | 345 | 347 | 337 | (1 ) | 2 | 1,036 | 988 | 5 |
| Issuer services | 313 | 234 | 315 | 34 | (1 ) | 779 | 775 | 1 |
| Treasury services | 137 | 144 | 142 | (5 ) | (4 ) | 418 | 419 | — |
| Total investment services fees | 1,852 | 1,785 | 1,819 | 4 | 2 | 5,388 | 5,238 | 3 |
| Investment management and performance fees | 829 | 878 | 881 | (6 ) | (6 ) | 2,574 | 2,607 | (1 ) |
| Foreign exchange and other trading revenue | 179 | 187 | 153 | (4 ) | 17 | 595 | 419 | 42 |
| Financing-related fees | 71 | 58 | 44 | 22 | 61 | 169 | 126 | 34 |
| Distribution and servicing | 41 | 39 | 44 | 5 | (7 ) | 121 | 130 | (7 ) |
| Investment and other income | 59 | 104 | 890 | (43 ) | N/M | 223 | 1,134 | N/M |
| Total fee revenue | 3,031 | 3,051 | 3,831 | (1 ) | (21 ) | 9,070 | 9,654 | (6 ) |
| Net securities gains | 22 | 16 | 20 | N/M | N/M | 62 | 60 | N/M |
| Total fee and other revenue | $3,053 | $3,067 | $3,851 | — % | (21 )% | $9,132 | $9,714 | (6 )% |
| | | | | | | | | |
| AUM at period end (in billions) (b) | $1,625 | $1,700 | $1,620 | (4 )% | — % | $1,625 | $1,620 | — % |
| AUC/A at period end (in trillions) (c) | $28.5 | $28.6 | $28.3 | — % | 1 % | $28.5 | $28.3 | 1 % |

(a) Asset servicing fees include securities lending revenue of $38 million in the third quarter of 2015, $49 million in the second quarter of 2015, $37 million in the third quarter of 2014, $130 million in the first nine months of 2015 and $121 million in the first nine months of 2014.

(b) Excludes securities lending cash management assets and assets managed in the Investment Services business. In the third quarter of 2015, prior period AUM was restated to reflect the reclassification of Meriten from the Investment Management business to the Other segment.

(c) Includes the AUC/A of CIBC Mellon of $1.0 trillion at Sept. 30, 2015, $1.1 trillion at June 30, 2015 and $1.2 trillion at Sept. 30, 2014.

N/M – Not meaningful.

Fee and other revenue decreased 21% compared with the third quarter of 2014 and was flat compared with the second quarter of 2015. The year-over-year decrease reflects the gains on the sales of our equity investment in Wing Hang and our One Wall Street building, as well as lower investment management and performance fees, partially offset by higher asset servicing fees, financing-related fees, foreign exchange and other trading revenue and clearing services fees. Sequentially, lower investment management and performance fees and investment and other income were offset by higher issuer services and financing-related fees.

Investment services fees

Investment services fees were impacted by the following compared with the third quarter of 2014 and the second quarter of 2015:

- Asset servicing fees increased 3% compared with the third quarter of 2014 and were flat compared with the second quarter of 2015. The year-over-year increase primarily reflects organic growth in the Global Collateral Services,

Broker-Dealer

Services and Asset Servicing businesses, and net new business, partially offset by the unfavorable impact of a stronger U.S. dollar. Sequentially, organic growth and net new business were offset by lower securities lending revenue and lower market values.

- Clearing services fees increased 2% compared with the third quarter of 2014 and decreased 1% (unannualized) compared with the second quarter of 2015. The year-over-year increase was primarily driven by higher mutual fund and asset-based fees.
- Issuer services fees decreased 1% compared with the third quarter of 2014 and increased 34% (unannualized) compared with the second quarter of 2015. The year-over-year decrease primarily reflects lower fees in Depositary Receipts and the unfavorable impact of a stronger U.S. dollar in Corporate Trust, partially offset by net new business in Corporate Trust. The sequential increase primarily reflects seasonally higher fees in Depositary Receipts.
- Treasury services fees decreased 4% compared with the third quarter of 2014 and 5% (unannualized) compared with the second quarter

of 2015. Both decreases primarily reflect 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 $829 million in the third quarter of 2015, a decrease of 6% compared with the third quarter of 2014, or a decrease of 2% on a constant currency basis (Non-GAAP). The decrease was primarily driven by lower performance fees, lower equity market values and net outflows, partially offset by the impact of the acquisition of Cutwater in the first quarter of 2015 and strategic initiatives. Compared with the second quarter of 2015, investment management and performance fees decreased 6% (unannualized) primarily reflecting lower equity market values, net outflows and seasonally lower performance fees. Both decreases also reflect the sale of Meriten in July 2015. Performance fees were $7 million in the third quarter of 2015 compared with $22 million in the third quarter of 2014 and $20 million in the second quarter of 2015.

Total AUM for the Investment Management business was $1.63 trillion at Sept. 30, 2015, flat compared with Sept. 30, 2014 and a decrease of 4% compared with June 30, 2015. Year-over-year, higher market values, the Cutwater acquisition and net new business were offset by the unfavorable impact of a stronger U.S. dollar. The sequential decreased primarily reflects lower equity market values. Net long-term outflows were $5 billion in the third quarter of 2015 driven by index, equity and fixed income investments, partially offset by liability-driven and alternative investments. Net short-term outflows were $10 billion in the third quarter of 2015.

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

Foreign exchange and other trading revenue

| Foreign exchange and other trading revenue | | | | Year-to-date | |
|---|---|---|---|---|---|
| (in millions) | 3Q15 | 2Q15 | 3Q14 | 2015 | 2014 |
| Foreign exchange | $180 | $181 | $154 | $578 | $413 |
| Other trading revenue (loss) | (1) | 6 | (1) | 17 | 6 |
| Total foreign exchange and other trading revenue | $179 | $187 | $153 | $595 | $419 |

Foreign exchange and other trading revenue totaled $179 million in the third quarter of 2015, $153 million in the third quarter of 2014 and $187 million in the second quarter of 2015. Foreign exchange revenue totaled $180 million in the third quarter of 2015, an increase of 17% compared with the third quarter of 2014 and a decrease of 1% (unannualized) compared with the second quarter of 2015. The year-over-year increase primarily reflects higher volatility and volumes. Foreign exchange revenue is reported in the Investment Services business and the Other segment. Other trading revenue is reported in all three business segments.

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 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 is negatively impacting our foreign exchange revenue. For the quarter ended Sept. 30, 2015, our total revenue for all types of foreign exchange trading transactions was $180 million, or approximately 5% of our total revenue, and approximately 34% 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.

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 $71 million in the third quarter of 2015, $44 million in the third quarter of 2014 and $58 million in the second quarter of 2015. The year-over-year increase primarily reflects higher fees related to secured intraday credit provided to dealers in connection with their tri-party repo activity. Both increases also reflect higher underwriting fees.

Distribution and servicing fees

Distribution and servicing fee revenue was $41 million in the third quarter of 2015, $44 million in the third quarter of 2014 and $39 million in the second quarter of 2015.

Investment and other income

| Investment and other income | | | | Year-to-date | |
|---|---|---|---|---|---|
| (in millions) | 3Q15 | 2Q15 | 3Q14 | 2015 | 2014 |
| Corporate/bank-owned life insurance | $32 | $31 | $34 | $96 | $94 |
| Lease residual gains | — | 54 | 5 | 53 | 44 |
| Expense reimbursements from joint venture | 16 | 17 | 13 | 47 | 40 |
| Seed capital gains (losses) (a) | 7 | 2 | (1) | 25 | 20 |
| Private equity gains | 1 | 3 | 2 | 1 | 5 |
| Asset-related gains (losses) | (9) | 1 | 836 | (5) | 852 |
| Equity investment revenue (loss) | (6) | (7) | (9) | (17) | 6 |
| Other income | 18 | 3 | 10 | 23 | 73 |
| Total investment and other income | $59 | $104 | $890 | $223 | $1,134 |

(a) Does not include the gain (loss) on seed capital investments in consolidated investment management funds which are reflected in operations of consolidated investment management funds, net of noncontrolling interests.

Investment and other income, which is primarily reported in the Other segment and Investment Management business, includes corporate and bank-owned life insurance contracts, lease residual gains, expense reimbursements from our CIBC Mellon joint venture, seed capital gains and losses, gains on private equity investments, asset-related gains and losses, equity investment revenue and loss 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 and 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 was $59 million in the third quarter of 2015 compared with $890 million in the third quarter of 2014 and $104 million in the second quarter of 2015. The year-over-year decrease primarily reflects the gains on the sales of our equity investment in Wing Hang and our One Wall Street building, both recorded in the third quarter of 2014. The sequential decrease primarily reflects lower leasing gains.

Year-to-date 2015 compared with year-to-date 2014

Fee and other revenue for the first nine months of 2015 totaled $9.1 billion compared with $9.7 billion in the first nine months of 2014. The decrease reflects the impact of the third quarter 2014 gains on the sales of our equity investment in Wing Hang and our One Wall Street building as well as lower investment management and performance fees, partially offset by higher foreign exchange and other trading revenue, asset servicing fees, clearing services fees, and

financing-related fees.

The decrease in investment management and performance fees primarily reflects the unfavorable impact of a stronger U.S. dollar and lower performance fees, partially offset by higher equity market values. The increase in foreign exchange and other trading revenue primarily reflects higher volatility and volumes. The increase in asset servicing fees reflects organic growth in the Global Collateral Services, Broker-Dealer Services and Asset Servicing businesses, and net new business, partially offset by the unfavorable impact of a stronger U.S. dollar. The increase in clearing services fees is primarily attributed to higher mutual fund and asset-based fees, as well as higher clearance and custody revenue. The increase in financing related fees primarily reflects higher fees related to secured intraday credit provided to dealers in connection with their tri-party repo activity.

Net interest revenue

| Net interest revenue | | | | 3Q15 vs. | | Year-to-date | | YTD15 vs. |
|---|---|---|---|---|---|---|---|---|
| (dollars in millions) | 3Q15 | 2Q15 | 3Q14 | 2Q15 | 3Q14 | 2015 | 2014 | YTD14 |
| Net interest revenue (non-FTE) | $759 | $779 | $721 | (3 )% | 5 % | $2,266 | $2,168 | 5 % |
| Tax equivalent adjustment | 14 | 15 | 15 | (7 ) | (7 ) | 44 | 48 | (8 ) |
| Net interest revenue (FTE) – Non-GAAP | $773 | $794 | $736 | (3 )% | 5 % | $2,310 | $2,216 | 4 % |
| Average interest-earning assets | $315,672 | $318,596 | $311,603 | (1 )% | 1 % | $314,152 | $299,064 | 5 % |
| Net interest margin (FTE) | 0.98 % | 1.00 % | 0.94 % | (2 ) bps | 4 bps | 0.98 % | 0.99 % | (1 ) bps |

FTE – fully taxable equivalent.
bps – basis points.

Net interest revenue totaled $759 million in the third quarter of 2015, an increase of $38 million compared with the third quarter of 2014 and a decrease of $20 million compared with the second quarter of 2015. The year-over-year increase primarily reflects higher securities and loans due to higher deposits and a shift out of cash, and lower interest expense on deposits. The sequential decrease primarily reflects lower average securities and the impact of interest rate hedging activities.

Average non-U.S. dollar deposits comprised approximately 20% of our average total deposits. Approximately half of the average non-U.S dollar deposits were Euro-denominated.

The net interest margin (FTE) was 0.98% in the third quarter of 2015 compared with 0.94% in the third quarter of 2014 and 1.00% in the second quarter of 2015. The year-over-year increase and the sequential decrease primarily reflect the factors noted above.

Year-to-date 2015 compared with year-to-date 2014

Net interest revenue totaled $2.3 billion in the first nine months of 2015, an increase of 5% compared with the first nine months of 2014. The increase in net interest revenue primarily reflects higher securities and loans due to higher deposits, the shift out of cash and lower interest expense incurred on deposits, partially offset by lower yields on interest-earning assets. The net interest margin (FTE) was 0.98% in the first nine months of 2015, compared with 0.99% in the first nine months of 2014. The decrease in the net interest margin (FTE) primarily reflects lower yields on interest-earning assets, partially offset by lower deposit rates.

| Average balances and interest rates | Quarter ended | | | | | |
|---|---|---|---|---|---|---|
| | Sept. 30, 2015 | | June 30, 2015 | | Sept. 30, 2014 | |
| (dollar amounts in millions, presented on an FTE basis) | Average balance | Average rates | Average balance | Average rates | Average balance | Average rates |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-bearing deposits with banks (primarily foreign banks) | $20,549 | 0.45 % | $20,235 | 0.56 % | $34,882 | 0.66 % |
| Interest-bearing deposits held at the Federal Reserve and other central banks | 84,175 | 0.20 | 81,846 | 0.21 | 88,713 | 0.23 |
| Federal funds sold and securities purchased under resale agreements | 25,366 | 0.61 | 23,545 | 0.61 | 15,683 | 0.61 |
| Margin loans | 19,839 | 1.05 | 20,467 | 1.01 | 18,108 | 1.04 |
| Non-margin loans: | | | | | | |
| Domestic offices | 27,411 | 2.15 | 26,716 | 2.06 | 23,826 | 2.20 |
| Foreign offices | 14,407 | 1.13 | 13,893 | 1.19 | 12,901 | 1.30 |
| Total non-margin loans | 41,818 | 1.80 | 40,609 | 1.77 | 36,727 | 1.88 |
| Securities: | | | | | | |
| U.S. Government obligations | 23,935 | 1.52 | 28,331 | 1.42 | 23,067 | 1.38 |
| U.S. Government agency obligations | 55,624 | 1.76 | 56,332 | 1.77 | 46,186 | 1.67 |
| State and political subdivisions – tax-exempt | 4,465 | 2.81 | 5,021 | 2.67 | 5,830 | 2.54 |
| Other securities | 37,164 | 1.28 | 38,957 | 1.24 | 36,972 | 1.37 |
| Trading securities | 2,737 | 2.74 | 3,253 | 2.63 | 5,435 | 2.36 |
| Total securities | 123,925 | 1.63 | 131,894 | 1.59 | 117,490 | 1.59 |
| Total interest-earning assets | $315,672 | 1.08 % | $318,596 | 1.08 % | $311,603 | 1.05 % |
| Allowance for loan losses | (184 ) | | (190 ) | | (187 ) | |
| Cash and due from banks | 6,140 | | 6,785 | | 6,225 | |
| Other assets | 49,700 | | 50,808 | | 52,526 | |
| Assets of consolidated investment management funds | 2,125 | | 2,280 | | 10,242 | |
| Total assets | $373,453 | | $378,279 | | $380,409 | |
| Liabilities | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Money market rate accounts | $7,518 | 0.08 % | $7,213 | 0.09 % | $5,320 | 0.11 % |
| Savings | 1,279 | 0.27 | 1,326 | 0.27 | 1,258 | 0.28 |
| Demand deposits | 3,105 | 0.25 | 3,109 | 0.20 | 2,566 | 0.21 |
| Time deposits | 43,529 | 0.04 | 46,807 | 0.03 | 41,248 | 0.04 |
| Foreign offices | 114,322 | — | 112,261 | — | 113,841 | 0.05 |
| Total interest-bearing deposits | 169,753 | 0.02 | 170,716 | 0.02 | 164,233 | 0.06 |
| Federal funds purchased and securities sold under repurchase agreements | 14,796 | (0.04 ) | 16,732 | (0.02 ) | 20,620 | (0.07 ) |
| Trading liabilities | 475 | 1.42 | 632 | 1.84 | 2,806 | 0.84 |
| Other borrowed funds | 628 | 1.18 | 903 | 1.26 | 933 | 0.47 |
| Commercial paper | 2,195 | 0.11 | 2,892 | 0.10 | 3,654 | 0.07 |
| Payables to customers and broker-dealers | 11,504 | 0.06 | 11,234 | 0.07 | 9,705 | 0.10 |
| Long-term debt | 21,070 | 1.21 | 20,625 | 0.99 | 20,429 | 1.12 |
| Total interest-bearing liabilities | $220,421 | 0.14 % | $223,734 | 0.12 % | $222,380 | 0.16 % |
| Total noninterest-bearing deposits | 85,046 | | 84,890 | | 82,334 | |
| Other liabilities | 27,880 | | 29,840 | | 27,369 | |

| | | | |
|---|---|---|---|
| Liabilities and obligations of consolidated investment management funds | 841 | 857 | 8,879 |
| Total liabilities | 334,188 | 339,321 | 340,962 |
| Temporary equity | | | |
| Redeemable noncontrolling interests | 252 | 235 | 244 |
| Permanent equity | | | |
| Total BNY Mellon shareholders’ equity | 38,140 | 37,829 | 38,313 |
| Noncontrolling interests | 873 | 894 | 890 |
| Total permanent equity | 39,013 | 38,723 | 39,203 |
| Total liabilities, temporary equity and permanent equity | $373,453 | $378,279 | $380,409 |
| Net interest margin (FTE) | 0.98 % | 1.00 % | 0.94 % |

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.

| Average balances and interest rates | Year-to-date | | | | | |
|---|---|---|---|---|---|---|
| | Sept. 30, 2015 | | | Sept. 30, 2014 | | |
| (dollar amounts in millions, presented on an FTE basis) | Average balance | Average rates | | Average balance | Average rates | |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-bearing deposits with banks (primarily foreign banks) | $20,946 | 0.52 | % | $39,283 | 0.71 | % |
| Interest-bearing deposits held at the Federal Reserve and other central banks | 82,405 | 0.21 | | 82,939 | 0.25 | |
| Federal funds sold and securities purchased under resale agreements | 23,127 | 0.61 | | 13,413 | 0.60 | |
| Margin loans | 20,118 | 1.02 | | 17,008 | 1.05 | |
| Non-margin loans: | | | | | | |
| Domestic offices | 26,469 | 2.11 | | 22,804 | 2.27 | |
| Foreign offices | 13,649 | 1.18 | | 13,510 | 1.30 | |
| Total non-margin loans | 40,118 | 1.80 | | 36,314 | 1.91 | |
| Securities: | | | | | | |
| U.S. Government obligations | 26,560 | 1.44 | | 19,269 | 1.52 | |
| U.S. Government agency obligations | 54,911 | 1.74 | | 44,034 | 1.73 | |
| State and political subdivisions – tax-exempt | 4,897 | 2.70 | | 6,328 | 2.54 | |
| Other securities | 38,059 | 1.28 | | 35,081 | 1.52 | |
| Trading securities | 3,011 | 2.61 | | 5,395 | 2.38 | |
| Total securities | 127,438 | 1.60 | | 110,107 | 1.71 | |
| Total interest-earning assets | $314,152 | 1.08 | % | $299,064 | 1.11 | % |
| Allowance for loan losses | (188 ) | | | (198 ) | | |
| Cash and due from banks | 6,376 | | | 5,726 | | |
| Other assets | 50,816 | | | 52,709 | | |
| Assets of consolidated investment management funds | 2,244 | | | 10,996 | | |
| Total assets | $373,400 | | | $368,297 | | |
| Liabilities | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Money market rate accounts | $7,186 | 0.09 | % | $5,384 | 0.12 | % |
| Savings | 1,344 | 0.28 | | 1,160 | 0.27 | |
| Demand deposits | 3,138 | 0.22 | | 2,878 | 0.13 | |
| Time deposits | 44,533 | 0.03 | | 41,871 | 0.04 | |
| Foreign offices | 110,499 | 0.01 | | 108,713 | 0.06 | |
| Total interest-bearing deposits | 166,700 | 0.03 | | 160,006 | 0.06 | |
| Federal funds purchased and securities sold under repurchase agreements | 15,139 | (0.04 ) | | 18,073 | (0.08 ) | |
| Trading liabilities | 633 | 1.41 | | 2,595 | 1.08 | |
| Other borrowed funds | 841 | 1.12 | | 1,080 | 0.49 | |
| Commercial paper | 2,071 | 0.10 | | 1,922 | 0.07 | |
| Payables to customers and broker-dealers | 11,225 | 0.06 | | 9,171 | 0.09 | |
| Long-term debt | 20,635 | 1.14 | | 20,404 | 1.12 | |
| Total interest-bearing liabilities | $217,244 | 0.14 | % | $213,251 | 0.16 | % |
| Total noninterest-bearing deposits | 86,493 | | | 80,531 | | |
| Other liabilities | 30,004 | | | 25,620 | | |
| Liabilities and obligations of consolidated investment management funds | 900 | | | 9,724 | | |
| Total liabilities | 334,641 | | | 329,126 | | |

| | | |
|---|---|---|
| Temporary equity | | |
| Redeemable noncontrolling interests | 240 | 238 |
| Permanent equity | | |
| Total BNY Mellon shareholders’ equity | 37,676 | 38,099 |
| Noncontrolling interests | 843 | 834 |
| Total permanent equity | 38,519 | 38,933 |
| Total liabilities, temporary equity and permanent equity | $373,400 | $368,297 |
| Net interest margin (FTE) | 0.98 % | 0.99 % |

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 | | | | 3Q15 vs. | | Year-to-date | | YTD15 vs. |
|---|---|---|---|---|---|---|---|---|
| (dollars in millions) | 3Q15 | 2Q15 | 3Q14 | 2Q15 | 3Q14 | 2015 | 2014 | YTD14 |
| Staff: | | | | | | | | |
| Compensation | $905 | $877 | $909 | 3 % | — % | $2,653 | $2,737 | (3 )% |
| Incentives | 326 | 349 | 340 | (7 ) | (4 ) | 1,100 | 1,012 | 9 |
| Employee benefits | 206 | 208 | 228 | (1 ) | (10 ) | 603 | 678 | (11 ) |
| Total staff | 1,437 | 1,434 | 1,477 | — | (3 ) | 4,356 | 4,427 | (2 ) |
| Professional, legal and other purchased services | 301 | 299 | 323 | 1 | (7 ) | 902 | 949 | (5 ) |
| Software | 154 | 158 | 154 | (3 ) | — | 470 | 460 | 2 |
| Net occupancy | 152 | 149 | 154 | 2 | (1 ) | 452 | 460 | (2 ) |
| Distribution and servicing | 95 | 96 | 107 | (1 ) | (11 ) | 289 | 326 | (11 ) |
| Sub-custodian | 65 | 75 | 67 | (13 ) | (3 ) | 210 | 216 | (3 ) |
| Furniture and equipment | 72 | 70 | 80 | 3 | (10 ) | 212 | 247 | (14 ) |
| Business development | 59 | 72 | 61 | (18 ) | (3 ) | 192 | 193 | (1 ) |
| Other | 268 | 250 | 250 | 7 | 7 | 760 | 820 | (7 ) |
| Amortization of intangible assets | 66 | 65 | 75 | 2 | (12 ) | 197 | 225 | (12 ) |
| M&I, litigation and restructuring charges | 11 | 59 | 220 | N/M | N/M | 67 | 330 | N/M |
| Total noninterest expense – GAAP | $2,680 | $2,727 | $2,968 | (2 )% | (10 )% | $8,107 | $8,653 | (6 )% |
| Total staff expense as a percentage of total revenue | 38 % | 37 % | 32 % | | | 38 % | 37 % | |
| Full-time employees at period end | 51,300 | 50,700 | 50,900 | 1 % | 1 % | 51,300 | 50,900 | 1 % |
| Memo: | | | | | | | | |
| Total noninterest expense excluding amortization of intangible assets, M&I, litigation and restructuring charges and the charge related to investment management funds, net of incentives – Non-GAAP | $2,603 | $2,603 | $2,673 | — % | (3 )% | $7,843 | $7,994 | (2 )% |

N/M – Not meaningful.

Total noninterest expense was $2.7 billion in the third quarter of 2015, a decrease of 10% compared with the third quarter of 2014 and a decrease of 2% (unannualized) compared with the second quarter of 2015. Excluding amortization of intangible assets and M&I, litigation and restructuring charges (Non-GAAP), noninterest expense decreased 3% compared with the third quarter of 2014 and was flat compared with the second quarter of 2015. The year-over-year decrease primarily reflects lower expenses in all categories, except other expenses. The lower expenses primarily reflect the favorable impact of a stronger U.S. dollar, lower legal and consulting expenses and the benefit of the business improvement process which focuses on reducing structural costs. The decrease was partially offset by higher consulting expenses associated with regulatory requirements. Sequentially, the annual merit increase and higher severance and other expenses were offset by lower incentive, business development and sub-custodian expenses. Other expense in the third quarter of 2015 includes a charge to cover out-of-pocket and other incidental expenses incurred by clients impacted by the SunGard systems outage.

We continue to invest in our risk management, regulatory compliance and other control functions in light of increasing regulatory requirements. As a result, we expect an increase in our expense run rate relating to these functions.

Staff expense

Given our mix of fee-based businesses, which are staffed with high-quality professionals, staff expense comprised 55% of total noninterest expense in the third quarter of 2015, third quarter of 2014 and second quarter of 2015, excluding amortization of intangible assets and M&I, litigation and restructuring charges (Non-GAAP).

Staff expense was $1.4 billion in the third quarter of 2015, a decrease of 3% compared with the third quarter of 2014 and flat compared with the second quarter of 2015. The decrease compared with the third quarter of 2014 primarily reflects the favorable impact of a stronger U.S. dollar, the impact of curtailing the U.S. pension plan and lower incentive expense, partially offset by the annual employee

merit increase and higher severance expense. Sequentially, the annual employee merit increase and higher severance were offset by lower incentives.

Non-staff expense

Non-staff expense, excluding amortization of intangible assets and M&I, litigation and restructuring charges (Non-GAAP), totaled $1.2 billion in the third quarter of 2015, a decrease of 3% compared with the third quarter of 2014 and flat compared with the second quarter of 2015. The decrease compared with the third quarter of 2014 reflects lower expenses in nearly all categories, except other expense. The lower expenses primarily reflect the favorable impact of a stronger U.S. dollar, lower legal and consulting expenses and the benefit of the business improvement process which focuses on reducing structural costs. The decrease was partially offset by higher consulting expenses associated with regulatory requirements. Sequentially, higher other expense was offset by lower business development and sub-custodian expenses.

For additional information on restructuring charges, see Note 10 of the Notes to Consolidated Financial Statements.

Year-to-date 2015 compared with year-to-date 2014

Noninterest expense totaled $8.1 billion in the first nine months of 2015, a decrease of 6%, compared with $8.7 billion in the first nine months of 2014. The decrease primarily reflects lower expenses in nearly all categories, except incentive and software expenses. The lower expenses primarily reflect the favorable impact of a stronger U.S. dollar, the benefit of the business improvement process which focuses on reducing structural costs, lower litigation and restructuring charges, the charge related to investment management funds, net of incentives, which was recorded in 2014 and the impact of curtailing the U.S. pension plan, partially offset by the impact of the new EU Single Resolution Fund and higher consulting expenses associated with regulatory requirements. The increase in incentives reflects better performance.

Income taxes

BNY Mellon recorded an income tax provision of $282 million (25.4% effective tax rate) in the third quarter of 2015. The income tax provision was $556 million (33.5% effective tax rate) in the third quarter of 2014. The gains related to the sale of our equity investment in Wing Hang and sale of our One Wall Street building and litigation expense recorded in the third quarter of 2014 primarily increased the effective tax rate by 7.1% for that quarter. The income tax provision was $276 million (23.7% effective tax rate) in the second quarter of 2015. The effective tax rate in the second quarter of 2015 was reduced by 1.4% due to the income statement presentation of consolidated investment management funds and litigation expense.

We expect the effective tax rate to be approximately 25% in the fourth 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 19 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. On July 31, 2015, BNY Mellon completed the sale of Meriten Investment Management GmbH (“Meriten”), a German-based investment management boutique. In the third quarter of 2015, we reclassified the results of Meriten from the Investment Management business to the Other segment. The reclassifications did not impact

the consolidated results. All prior periods have been restated.

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 primarily impacted by activities denominated in the British Pound, Euro and the Indian Rupee. 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 | 3Q15 | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 3Q15 vs. 2Q15 | 3Q15 vs. 3Q14 | Year-to-date 2015 | Year-to-date 2014 | YTD15 vs. YTD14 |
|---|---|---|---|---|---|---|---|---|---|---|
| S&P 500 Index (a) | 1920 | 2063 | 2068 | 2059 | 1972 | (7) % | (3) % | 1920 | 1972 | (3) % |
| S&P 500 Index – daily average | 2027 | 2102 | 2064 | 2009 | 1976 | (4) | 3 | 2064 | 1905 | 8 |
| FTSE 100 Index (a) | 6062 | 6521 | 6773 | 6566 | 6623 | (7) | (8) | 6062 | 6623 | (8) |
| FTSE 100 Index – daily average | 6399 | 6920 | 6793 | 6526 | 6756 | (8) | (5) | 6698 | 6733 | (1) |
| MSCI World Index (a) | 1582 | 1736 | 1741 | 1710 | 1698 | (9) | (7) | 1582 | 1698 | (7) |
| MSCI World Index – daily average | 1691 | 1780 | 1726 | 1695 | 1733 | (5) | (2) | 1732 | 1693 | 2 |
| Barclays Capital Global Aggregate Bond[SM] Index (a)(b) | 346 | 342 | 348 | 357 | 361 | 1 | (4) | 346 | 361 | (4) |
| NYSE and NASDAQ share volume (in billions) | 206 | 185 | 187 | 198 | 173 | 11 | 19 | 578 | 556 | 4 |
| JPMorgan G7 Volatility Index – daily average (c) | 9.93 | 10.06 | 10.40 | 8.54 | 6.21 | (1) | 60 | 10.13 | 6.74 | 50 |
| Average Fed Funds effective rate | 0.13 % | 0.13 % | 0.11 % | 0.10 % | 0.09 % | — | 4 bps | 0.12 % | 0.08 % | 4 bps |
| Foreign exchange rates vs. U.S. dollar: | | | | | | | | | | |
| British pound – average rate | $1.55 | $1.53 | $1.51 | $1.58 | $1.67 | 1 % | (7) % | $1.53 | $1.67 | (8) % |
| Euro – average rate | 1.11 | 1.11 | 1.13 | 1.25 | 1.33 | — | (17) | 1.11 | 1.36 | (18) |

(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 Sept. 30, 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.

Fee waivers are highly sensitive to changes in the Fed Funds effective rate. Assuming no change in client behavior, we expect to recover approximately 70% of the pre-tax income related to fee waivers with a 50 basis point increase in the Fed Funds effective rate.

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

| For the quarter ended Sept. 30, 2015 (dollar amounts in millions) | Investment Management | | Investment Services | | Other | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| Fee and other revenue | $846 | (a) | $2,087 | | $103 | | $3,036 | (a) |
| Net interest revenue | 83 | | 628 | | 48 | | 759 | |
| Total revenue | 929 | (a) | 2,715 | | 151 | | 3,795 | (a) |
| Provision for credit losses | — | | — | | 1 | | 1 | |
| Noninterest expense | 692 | | 1,863 | | 124 | | 2,679 | (b) |
| Income before taxes | $237 | (a) | $852 | | $26 | | $1,115 | (a)(b) |
| Pre-tax operating margin (c) | 26 | % | 31 | % | N/M | | 29 | % |
| Average assets | $30,960 | | $282,159 | | $60,334 | | $373,453 | |
| Excluding amortization of intangible assets: | | | | | | | | |
| Noninterest expense | $668 | | $1,822 | | $123 | | $2,613 | |
| Income before taxes | 261 | (a) | 893 | | 27 | | 1,181 | (a)(b) |
| Pre-tax operating margin (c) | 28 | % | 33 | % | N/M | | 31 | % |

(a) Both total fee and other revenue and total revenue include the net loss from consolidated investment management funds of $17 million, representing $22 million of losses and a loss attributable to noncontrolling interests of $5 million. Income before taxes is net of a loss attributable to noncontrolling interests of $5 million.
(b) Includes a loss attributable to noncontrolling interest of $1 million related to other consolidated subsidiaries.
(c) Income before taxes divided by total revenue.
N/M - Not meaningful.

| For the quarter ended June 30, 2015 (dollar amounts in millions) | Investment Management | | Investment Services | | Other | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| Fee and other revenue | $913 | (a) | $2,020 | | $137 | | $3,070 | (a) |
| Net interest revenue | 78 | | 636 | | 65 | | 779 | |
| Total revenue | 991 | (a) | 2,656 | | 202 | | 3,849 | (a) |
| Provision for credit losses | — | | — | | (6 | ) | (6 | ) |
| Noninterest expense | 728 | | 1,880 | | 118 | | 2,726 | (b) |
| Income before taxes | $263 | (a) | $776 | | $90 | | $1,129 | (a)(b) |
| Pre-tax operating margin (c) | 27 | % | 29 | % | N/M | | 29 | % |
| Average assets | $30,414 | | $290,102 | | $57,763 | | $378,279 | |
| Excluding amortization of intangible assets: | | | | | | | | |
| Noninterest expense | $703 | | $1,840 | | $118 | | $2,661 | |
| Income before taxes | 288 | (a) | 816 | | 90 | | 1,194 | (a)(b) |
| Pre-tax operating margin (c) | 29 | % | 31 | % | N/M | | 31 | % |

(a) Both total fee and other revenue and total revenue include the net income from consolidated investment management funds of $3 million, representing $40 million of income and noncontrolling interests of $37 million. Income before taxes is net of noncontrolling interests of $37 million.
(b) Includes a loss attributable to noncontrolling interest of $1 million related to other consolidated subsidiaries.
(c) Income before taxes divided by total revenue.
N/M - Not meaningful.

| For the quarter ended Sept. 30, 2014 (dollar amounts in millions) | Investment Management | | Investment Services | | Other | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| Fee and other revenue | $920 | (a) | $2,005 | | $942 | | $3,867 | (a) |
| Net interest revenue | 69 | | 583 | | 69 | | 721 | |
| Total revenue | 989 | (a) | 2,588 | | 1,011 | | 4,588 | (a) |
| Provision for credit losses | — | | — | | (19 | ) | (19 | ) |
| Noninterest expense | 744 | | 1,875 | | 349 | | 2,968 | |
| Income before taxes | $245 | (a) | $713 | | $681 | | $1,639 | (a) |
| Pre-tax operating margin (b) | 25 | % | 28 | % | N/M | | 36 | % |
| Average assets | $36,542 | | $266,466 | | $77,401 | | $380,409 | |
| Excluding amortization of intangible assets: | | | | | | | | |
| Noninterest expense | $715 | | $1,831 | | $347 | | $2,893 | |
| Income before taxes | 274 | (a) | 757 | | 683 | | 1,714 | (a) |
| Pre-tax operating margin (b) | 28 | % | 29 | % | N/M | | 37 | % |

(a) Both total fee and other revenue and total revenue include net income from consolidated investment management funds of $16 million, representing $39 million of income and noncontrolling interests of $23 million. Income before taxes is net of noncontrolling interests of $23 million.
(b) Income before taxes divided by total revenue.
N/M - Not meaningful.

| For the nine months ended Sept. 30, 2015 (dollar amounts in millions) | Investment Management | | Investment Services | | Other | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| Fee and other revenue | $2,682 | (a) | $6,100 | | $357 | | $9,139 | (a) |
| Net interest revenue | 235 | | 1,863 | | 168 | | 2,266 | |
| Total revenue | 2,917 | (a) | 7,963 | | 525 | | 11,405 | (a) |
| Provision for credit losses | — | | — | | (3 | ) | (3 | ) |
| Noninterest expense | 2,154 | | 5,578 | | 373 | | 8,105 | (b) |
| Income before taxes | $763 | (a) | $2,385 | | $155 | | $3,303 | (a)(b) |
| Pre-tax operating margin (c) | 26 | % | 30 | % | N/M | | 29 | % |
| Average assets | $30,910 | | $285,747 | | $56,743 | | $373,400 | |
| Excluding amortization of intangible assets: | | | | | | | | |
| Noninterest expense | $2,081 | | $5,456 | | $371 | | $7,908 | |
| Income before taxes | 836 | (a) | 2,507 | | 157 | | 3,500 | (a)(b) |
| Pre-tax operating margin (c) | 29 | % | 31 | % | N/M | | 31 | % |

(a) Both total fee and other revenue and total revenue include the net income from consolidated investment management funds of $7 million, representing $70 million of income and noncontrolling interests of $63 million. Income before taxes is net of noncontrolling interests of $63 million.
(b) Includes a loss attributable to noncontrolling interest of $2 million related to other consolidated subsidiaries.
(c) Income before taxes divided by total revenue.
N/M - Not meaningful.

| For the nine months ended Sept. 30, 2014 (dollar amounts in millions) | Investment Management | | Investment Services | | Other | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| Fee and other revenue | $2,760 | (a) | $5,811 | | $1,204 | | $9,775 | (a) |
| Net interest revenue | 205 | | 1,766 | | 197 | | 2,168 | |
| Total revenue | 2,965 | (a) | 7,577 | | 1,401 | | 11,943 | (a) |
| Provision for credit losses | — | | — | | (49 | ) | (49 | ) |
| Noninterest expense | 2,304 | | 5,564 | | 785 | | 8,653 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Income before taxes | $661 | (a) | $2,013 | | $665 | $3,339 | (a) |
| Pre-tax operating margin (b) | 22 | % | 27 | % | N/M | 28 | % |
| Average assets | $37,821 | | $263,084 | | $67,392 | $368,297 | |
| Excluding amortization of intangible assets: | | | | | | | |
| Noninterest expense | $2,215 | | $5,432 | | $781 | $8,428 | |
| Income before taxes | 750 | (a) | 2,145 | | 669 | 3,564 | (a) |
| Pre-tax operating margin (b) | 25 | % | 28 | % | N/M | 30 | % |

(a) Both total fee and other revenue and total revenue include net income from consolidated investment management funds of $61 million, representing $121 million of income and noncontrolling interests of $60 million. Income before taxes is net of noncontrolling interests of $60 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

Investment Management business

| (dollar amounts in millions) | 3Q15 | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 3Q15 vs. 2Q15 | 3Q15 vs. 3Q14 | Year-to-date 2015 | Year-to-date 2014 | YTD15 vs. YTD14 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | | | | |
| Investment management fees: | | | | | | | | | | |
| Mutual funds | $301 | $312 | $301 | $306 | $315 | (4 )% | (4 )% | $914 | $925 | (1 )% |
| Institutional clients | 347 | 363 | 365 | 364 | 370 | (4 ) | (6 ) | 1,075 | 1,102 | (2 ) |
| Wealth management | 156 | 160 | 159 | 157 | 158 | (3 ) | (1 ) | 475 | 467 | 2 |
| Investment management fees | 804 | 835 | 825 | 827 | 843 | (4 ) | (5 ) | 2,464 | 2,494 | (1 ) |
| Performance fees | 7 | 20 | 15 | 40 | 22 | N/M | (68 ) | 42 | 71 | (41 ) |
| Investment management and performance fees | 811 | 855 | 840 | 867 | 865 | (5 ) | (6 ) | 2,506 | 2,565 | (2 ) |
| Distribution and servicing | 37 | 38 | 38 | 39 | 40 | (3 ) | (8 ) | 113 | 118 | (4 ) |
| Other (a) | (2 ) | 20 | 45 | 6 | 15 | N/M | N/M | 63 | 77 | N/M |
| Total fee and other revenue (a) | 846 | 913 | 923 | 912 | 920 | (7 ) | (8 ) | 2,682 | 2,760 | (3 ) |
| Net interest revenue | 83 | 78 | 74 | 69 | 69 | 6 | 20 | 235 | 205 | 15 |
| Total revenue | 929 | 991 | 997 | 981 | 989 | (6 ) | (6 ) | 2,917 | 2,965 | (2 ) |
| Noninterest expense (ex. amortization of intangible assets and the charge related to investment management funds, net of incentives) | 668 | 703 | 710 | 716 | 715 | (5 ) | (7 ) | 2,081 | 2,111 | (1 ) |
| Income before taxes (ex. amortization of intangible assets and the charge related | 261 | 288 | 287 | 265 | 274 | (9 ) | (5 ) | 836 | 854 | (2 ) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| to investment management funds, net of incentives) | | | | | | | | | | |
| Amortization of intangible assets | 24 | 25 | 24 | 29 | 29 | (4 ) | (17 ) | 73 | 89 | (18 ) |
| Charge related to investment management funds, net of incentives | — | — | — | — | — | — | — | — | 104 | N/M |
| Income before taxes | $237 | $263 | $263 | $236 | $245 | (10 )% | (3 )% | $763 | $661 | 15 % |
| | | | | | | | | | | |
| Pre-tax operating margin | 26 % | 27 % | 26 % | 24 % | 25 % | | | 26 % | 22 % | |
| Adjusted pre-tax operating margin (b) | 34 % | 34 % | 34 % | 33 % | 33 % | | | 34 % | 35 % | |
| | | | | | | | | | | |
| Average balances: | | | | | | | | | | |
| Average loans | $12,779 | $12,298 | $11,634 | $11,124 | $10,772 | 4 % | 19 % | $12,241 | $10,408 | 18 % |
| Average deposits | $15,282 | $14,638 | $15,217 | $14,602 | $13,762 | 4 % | 11 % | $15,046 | $14,004 | 7 % |

(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 52 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 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 52 for the reconciliation of this Non-GAAP measure.

N/M – Not meaningful.

| AUM trends (a) | | | | | | 3Q15 vs. | |
|---|---|---|---|---|---|---|---|
| (dollar amounts in billions) | 3Q15 | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 2Q15 | 3Q14 |
| AUM at period end, by product type: | | | | | | | |
| Equity | $224 | $248 | $259 | $260 | $263 | (10)% | (15)% |
| Fixed income | 216 | 215 | 211 | 204 | 201 | — | 7 |
| Index | 325 | 366 | 382 | 356 | 344 | (11) | (6) |
| Liability-driven investments (b) | 520 | 520 | 510 | 504 | 455 | — | 14 |
| Alternative investments | 62 | 62 | 58 | 65 | 64 | — | (3) |
| Cash | 278 | 289 | 297 | 297 | 293 | (4) | (5) |
| Total AUM | $1,625 | $1,700 | $1,717 | $1,686 | $1,620 | (4)% | —% |
| | | | | | | | |
| AUM at period end, by client type: | | | | | | | |
| Institutional | $1,129 | $1,163 | $1,188 | $1,164 | $1,106 | (3)% | 2% |
| Mutual funds | 419 | 454 | 445 | 438 | 430 | (8) | (3) |
| Private client | 77 | 83 | 84 | 84 | 84 | (7) | (8) |
| Total AUM | $1,625 | $1,700 | $1,717 | $1,686 | $1,620 | (4)% | —% |
| | | | | | | | |
| Changes in AUM: | | | | | | | |
| Beginning balance of AUM | $1,700 | $1,717 | $1,686 | $1,620 | $1,609 | | |
| Net inflows (outflows): | | | | | | | |
| Long-term: | | | | | | | |
| Equity | (4) | (13) | (5) | (5) | (2) | | |
| Fixed income | (3) | (2) | 3 | 4 | — | | |
| Index | (10) | (9) | 8 | 1 | (3) | | |
| Liability-driven investments (b) | 11 | 5 | 8 | 24 | 19 | | |
| Alternative investments | 1 | 3 | 1 | 2 | — | | |
| Total long-term inflows (outflows) | (5) | (16) | 15 | 26 | 14 | | |
| Short term: | | | | | | | |
| Cash | (10) | (11) | 1 | 6 | 18 | | |
| Total net inflows (outflows) | (15) | (27) | 16 | 32 | 32 | | |
| Net market/currency impact/acquisition | (60) | 10 | 15 | 34 | (21) | | |
| Ending balance of AUM | $1,625 | $1,700 | $1,717 | $1,686 | $1,620 | (4)% | —% |

(a) Excludes securities lending cash management assets and assets managed in the Investment Services business. In the third quarter of 2015, prior period AUM was restated to reflect the reclassification of Meriten from the Investment Management business to the Other segment.

(b) Includes currency 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 $1.63 trillion compared with $1.62 trillion at Sept. 30, 2014 and $1.70 trillion at June 30, 2015. The year-over-year increase resulted from higher market values, the impact of the first quarter of 2015

acquisition of Cutwater and net new business, partially offset by the

unfavorable impact of a stronger U.S. dollar. The sequential decrease primarily resulted from lower equity market values. Net long-term outflows were $5 billion in the third quarter of 2015 driven by index, equity and fixed income investments, partially offset by liability-driven and alternative investments. Net short-term outflows were $10 billion in the third quarter of 2015.

Total revenue was $929 million, a decrease of 6% compared with the third quarter of 2014 and 6% (unannualized) compared with the second quarter of 2015. The decrease compared with the third quarter of 2014 primarily reflects the unfavorable impact of a stronger U.S. dollar. Both decreases also reflect seed capital losses, lower equity market values and net outflows, partially offset by higher net interest revenue.

Revenue generated in the Investment Management business included 42% from non-U.S. sources

compared with 43% in the third quarter of 2014 and 42% in the second quarter of 2015.

Investment management fees in the Investment Management business were $804 million, a decrease of 5%, or flat on a constant currency basis (Non-GAAP) compared with $843 million in the third quarter of 2014. On a constant currency basis (Non-GAAP), investment management fees reflect the impact of the first quarter of 2015 acquisition of Cutwater and strategic initiatives, offset by lower equity market values and net outflows. Investment management fees decreased 4% (unannualized) compared with the second quarter of 2015 primarily reflecting lower equity market values and net outflows.

In the third quarter of 2015, 37% 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 $315 million in the third quarter of 2014 and $312 million in the second quarter of 2015. The decrease compared with the third quarter of 2014 primarily resulted from the unfavorable impact of a stronger U.S. dollar. The decrease compared with the second quarter of 2015 reflects lower equity market values.

Performance fees were $7 million compared with $22 million in the third quarter of 2014 and $20 million in the second quarter of 2015.

Distribution and servicing fees were $37 million compared with $40 million in the third quarter of 2014 and $38 million in the second quarter of 2015.

Other losses were $2 million compared with other revenue of $15 million in the third quarter of 2014 and other revenue of $20 million in the second quarter of 2015. Both decreases primarily reflect seed capital losses.

Net interest revenue was $83 million compared with $69 million in the third quarter of 2014 and $78 million in the second quarter of 2015. Both increases primarily reflect higher internal crediting rates for deposits and record high average loans and deposits.

Average loans increased 19% compared with the third quarter of 2014 and 4% compared with the second quarter of 2015, while average deposits increased 11% compared with the third quarter of 2014 and 4% compared with the second quarter of 2015.

Noninterest expense, excluding amortization of intangible assets and the charge related to investment management funds, net of incentives, was $668 million compared with $715 million in the third quarter of 2014 and $703 million in the second quarter of 2015. The decrease compared with the third quarter of 2014 primarily reflects the favorable impact of a stronger U.S. dollar, lower incentives and distribution and servicing expenses and the business improvement process, partially offset by strategic initiatives. The decrease compared with the second quarter of 2015 primarily resulted from lower incentives.

Year-to-date 2015 compared with year-to-date 2014

Income before taxes totaled $763 million, an increase of 15% compared with $661 million in the first nine months of 2014. Income before taxes excluding amortization of intangible assets and the charge related to investment management funds, net of incentives, was $836 million compared with $854 million in the first nine months of 2014. Fee and other revenue decreased $78 million, or 3% compared with the first nine months of 2014 primarily reflecting the unfavorable impact of the stronger U.S. dollar, lower performance fees and net outflows, partially offset by higher equity market values and the impact of the first quarter of 2015 acquisition of Cutwater and strategic initiatives. Net interest revenue increased $30 million, or 15% compared with the first nine months of 2014 primarily resulting from

higher internal crediting rates for deposits and higher average loans and deposits. Noninterest expense excluding amortization of intangible assets and the charge related to investment management funds, net of incentives, decreased $30 million, or 1% compared with the first nine months of 2014, primarily reflecting the favorable impact of the stronger U.S. dollar and lower incentives, partially offset by the impact of strategic initiatives and higher equity market values.

Investment Services business

| (dollars in millions, unless otherwise noted) | 3Q15 | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 3Q15 vs. 2Q15 | 3Q15 vs. 3Q14 | Year-to-date 2015 | Year-to-date 2014 | YTD15 vs. YTD14 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue: | | | | | | | | | | |
| Investment services fees: | | | | | | | | | | |
| Asset servicing | $1,031 | $1,035 | $1,013 | $992 | $998 | — % | 3 % | $3,079 | $2,976 | 3 % |
| Clearing services | 345 | 346 | 342 | 346 | 336 | — | 3 | 1,033 | 983 | 5 |
| Issuer services | 312 | 234 | 231 | 193 | 314 | 33 | (1 ) | 777 | 773 | 1 |
| Treasury services | 135 | 141 | 135 | 142 | 139 | (4 ) | (3 ) | 411 | 413 | — |
| Total investment services fees | 1,823 | 1,756 | 1,721 | 1,673 | 1,787 | 4 | 2 | 5,300 | 5,145 | 3 |
| Foreign exchange and other trading revenue | 177 | 179 | 209 | 165 | 159 | (1 ) | 11 | 565 | 462 | 22 |
| Other (a) | 87 | 85 | 63 | 70 | 59 | 2 | 47 | 235 | 204 | 15 |
| Total fee and other revenue | 2,087 | 2,020 | 1,993 | 1,908 | 2,005 | 3 | 4 | 6,100 | 5,811 | 5 |
| Net interest revenue | 628 | 636 | 599 | 573 | 583 | (1 ) | 8 | 1,863 | 1,766 | 5 |
| Total revenue | 2,715 | 2,656 | 2,592 | 2,481 | 2,588 | 2 | 5 | 7,963 | 7,577 | 5 |
| Noninterest expense (ex. amortization of intangible assets) | 1,822 | 1,840 | 1,794 | 2,509 | 1,831 | (1 ) | — | 5,456 | 5,432 | — |
| Income (loss) before taxes (ex. amortization of intangible assets) | 893 | 816 | 798 | (28 ) | 757 | 9 | 18 | 2,507 | 2,145 | 17 |
| Amortization of intangible assets | 41 | 40 | 41 | 43 | 44 | 3 | (7 ) | 122 | 132 | (8 ) |
| Income (loss) before taxes | $852 | $776 | $757 | $(71 ) | $713 | 10 % | 19 % | $2,385 | $2,013 | 18 % |
| Pre-tax operating margin | 31 % | 29 % | 29 % | (3 )% | 28 % | | | 30 % | 27 % | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Pre-tax operating margin (ex. amortization of intangible assets) | 33 % | 31 % | 31 % | (1 )% | 29 % | | | 31 % | 28 % | |
| Investment services fees as a percentage of noninterest expense (b) | 101 % | 98 % | 96 % | 93 % | 100 % | | | 98 % | 95 % | |
| Securities lending revenue | $30 | $40 | $34 | $28 | $27 | (25 )% | 11 % | $104 | $92 | 13 % |
| Metrics: | | | | | | | | | | |
| Average loans | $38,025 | $38,264 | $37,699 | $35,448 | $33,785 | (1 )% | 13 % | $37,997 | $32,798 | 16 % |
| Average deposits | $230,153 | $237,193 | $234,183 | $228,282 | $221,734 | (3 )% | 4 % | $233,828 | $219,152 | 7 % |
| AUC/A at period end (in trillions) (c) | $28.5 | $28.6 | $28.5 | $28.5 | $28.3 | — % | 1 % | | | |
| Market value of securities on loan at period end (in billions) (d) | $288 | $283 | $291 | $289 | $282 | 2 % | 2 % | | | |
| Asset servicing: Estimated new business wins (AUC/A) (in billions) (e) | $84 | $933 | $125 | $168 | $154 | | | | | |
| Depositary Receipts: Number of sponsored programs | 1,176 | 1,206 | 1,258 | 1,279 | 1,302 | (2 )% | (10 )% | | | |
| Clearing services: Global DARTS volume (in thousands) | 246 | 242 | 261 | 242 | 209 | 2 % | 18 % | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Average active clearing accounts (U.S. platform) (in thousands) | 6,107 | 6,046 | 5,979 | 5,900 | 5,805 | 1 % | 5 % |
| Average long-term mutual fund assets (U.S. platform) | $447,287 | $466,195 | $456,954 | $450,305 | $442,827 | (4 )% | 1 % |
| Average investor margin loans (U.S. platform) | $11,806 | $11,890 | $11,232 | $10,711 | $9,861 | (1 )% | 20 % |
| Broker-Dealer: | | | | | | | |
| Average tri-party repo balances (in billions) | $2,142 | $2,174 | $2,153 | $2,101 | $2,063 | (1 )% | 4 % |

(a) Other revenue includes investment management fees, financing-related fees, distribution and servicing revenue and investment and other income.

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

(c) Includes the AUC/A of CIBC Mellon of $1.0 trillion at Sept. 30, 2015, $1.1 trillion at June 30, 2015, March 31, 2015 and Dec. 31, 2014 and $1.2 trillion at Sept. 30, 2014.

(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 $61 billion at Sept. 30, 2015, $68 billion at June 30, 2015, $69 billion at March 31, 2015 and $65 billion at Dec. 31, 2014 and Sept. 30, 2014.

(e) Beginning with the third quarter of 2015, estimated new business wins are determined based on finalization of the contract as compared to the prior methodology of receipt of a mandate. Prior periods have been restated for comparative purposes.

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 Sept. 30, 2015. We are one of the largest custodians 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, servicing around a fifth of UK pensions that require a custodian, and with

approximately 20% of total assets for the sector in our custody. 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 among clients.

BNY Mellon is a leader in both global and U.S. Government securities clearance. We settle securities transactions in over 100 markets and handle most of the transactions cleared through the Federal Reserve Bank of New York for 18 of the 22 primary dealers. We are a leader in servicing tri-party collateral with approximately $2.1 trillion serviced globally. We currently service approximately $1.3 trillion, or approximately 85%, of the $1.6 trillion tri-party repo market in the U.S.

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.

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 $2.9 trillion in 33 markets.

We serve as depositary for 1,176 sponsored American and global depositary receipt programs at Sept. 30, 2015, acting in partnership with leading companies from 64 countries - an estimated 59% 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 18 of the Notes to Consolidated Financial Statements.

Review of financial results

AUC/A totaled $28.5 trillion, an increase from $28.3 trillion at Sept. 30, 2014 and a decrease from $28.6 trillion at June 30, 2015. The increase compared with Sept. 30, 2014 was primarily driven by net new business, partially offset by the unfavorable impact of a stronger U.S. dollar and lower equity market values. AUC/A consisted of 34% equity securities and 66% fixed income securities at Sept. 30, 2015 compared with 36% equity securities and 64% fixed income securities at Sept. 30, 2014.

Investment services fees were $1.8 billion, an increase of 2% compared with the third quarter of 2014 and 4% compared with the second quarter of 2015 (unannualized) reflecting the following factors:

- Asset servicing fees (global custody, broker-dealer services and Global Collateral Services) were $1.03 billion compared with $998 million in the third quarter of 2014 and $1.04 billion in the second quarter of 2015. The year-over-year increase primarily reflects organic growth in the Global Collateral Services, Broker-Dealer Services and Asset Servicing businesses, and net new business, partially offset by the unfavorable impact of a stronger U.S. dollar. Sequentially, organic growth and net new business were offset by lower securities lending revenue and lower market values.
- Clearing services fees were $345 million compared with $336 million in the third quarter of 2014 and $346 million in the second quarter of 2015. The year-over-year increase was primarily driven by higher mutual fund and asset-based fees.
- Issuer services fees (Corporate Trust and Depositary Receipts) were $312 million compared with $314 million in the third quarter of 2014 and $234 million in the second quarter of 2015. The year-over-year decrease primarily reflects lower fees in Depositary Receipts and the unfavorable impact of a stronger U.S. dollar in Corporate Trust, partially offset by net new business in Corporate Trust. The sequential increase primarily reflects seasonally higher fees in Depositary Receipts.
- Treasury services fees were $135 million compared with $139 million in the third quarter of 2014 and $141 million in the second quarter of 2015. Both decreases primarily reflect lower payment volumes.

Foreign exchange and other trading revenue totaled $177 million compared with $159 million in the third quarter of 2014 and $179 million in the second quarter of 2015. The year-over-year increase primarily reflects higher volatility and volumes.

Net interest revenue was $628 million compared with $583 million in the third quarter of 2014 and $636 million in the second quarter of 2015. The year-over-year increase primarily reflects higher average deposits and higher internal crediting rates for deposits. The sequential decrease primarily reflects lower average deposits.

Noninterest expense, excluding amortization of intangible assets, was $1.82 billion compared with $1.83 billion in the third quarter of 2014 and $1.84

billion in the second quarter of 2015. The year-over-year decrease primarily reflects lower litigation and consulting expenses, as well as the favorable impact of a stronger U.S. dollar, partially offset by higher staff expense. The sequential decrease primarily reflects lower litigation expense, partially offset by higher staff expense.

Year-to-date 2015 compared with year-to-date 2014

Income before taxes totaled $2.4 billion, an increase of 18% compared with $2.0 billion in the first nine months of 2014. Excluding amortization of intangible assets, income before taxes increased $362 million, or 17% compared with the first nine months of 2014. Fee and other revenue increased $289 million, or 5%, compared with the first nine months

of 2014 primarily reflecting higher asset servicing fees driven by organic growth and net new business, higher foreign exchange and other trading revenue due to higher volatility and higher clearing services fees, partially offset by the unfavorable impact of a stronger U.S. dollar. The $97 million, or 5% increase in net interest revenue primarily reflects higher average deposits and loans, as well as higher internal crediting rates for deposits. Noninterest expense, excluding amortization of intangible assets, increased $24 million, or less than 1% compared with the first nine months of 2014 primarily due to higher staff and litigation expenses, partially offset by lower consulting expense and the favorable impact of a stronger U.S. dollar.

Other segment

| | | | | | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| (dollars in millions) | 3Q15 | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 2015 | 2014 |
| Revenue: | | | | | | | |
| Fee and other revenue | $103 | $137 | $117 | $133 | $942 | $357 | $1,204 |
| Net interest revenue | 48 | 65 | 55 | 70 | 69 | 168 | 197 |
| Total revenue | 151 | 202 | 172 | 203 | 1,011 | 525 | 1,401 |
| Provision for credit losses | 1 | (6) | 2 | 1 | (19) | (3) | (49) |
| Noninterest expense (ex. amortization of intangible assets, M&I and restructuring charges (recoveries)) | 125 | 110 | 134 | 226 | 290 | 369 | 604 |
| Income (loss) before taxes (ex. amortization of intangible assets, M&I and restructuring charges (recoveries)) | 25 | 98 | 36 | (24) | 740 | 159 | 846 |
| Amortization of intangible assets | 1 | — | 1 | 1 | 2 | 2 | 4 |
| M&I and restructuring charges (recoveries) | (2) | 8 | (4) | — | 57 | 2 | 177 |
| Income (loss) before taxes | $26 | $90 | $39 | $(25) | $681 | $155 | $665 |
| Average loans and leases | $10,853 | $10,514 | $8,602 | $10,272 | $10,278 | $9,999 | $10,116 |

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 $839 million  compared with the third quarter of 2014 and $34 million compared with the second quarter of 2015. The year-over-year decrease primarily reflects the gains on the sales of our equity investment in Wing Hang and our One Wall Street building, both recorded in the third quarter of 2014. The sequential decrease primarily reflects lower leasing gains.

Net interest revenue decreased $21 million compared with the third quarter of 2014 and $17 million

compared with the second quarter of 2015. Both decreases reflect higher internal crediting rates to the businesses for deposits.

Noninterest expense, excluding amortization of intangible assets, M&I and restructuring charges (recoveries), decreased $165 million compared with the third quarter of 2014 and increased $15 million compared with the second quarter of 2015. The year-over-year decrease primarily reflects lower litigation expense and the impact of curtailing the U.S. pension plan. The sequential increase was primarily driven by the annual employee merit increase and higher severance.

Year-to-date 2015 compared with year-to-date 2014

Income before taxes in the Other segment was $155 million in the first nine months of 2015 compared with $665 million in the first nine months of 2014. Total revenue decreased $876 million primarily resulting from the gains on the sales of our equity investment in Wing Hang and our One Wall Street building, both recorded in 2014. The provision for credit losses was a credit of $3 million in the first nine months of 2015 compared with a credit of $49 million in the first nine months of 2014. Noninterest expense, excluding amortization of intangible assets, M&I and restructuring charges (recoveries), decreased $235 million, primarily reflecting lower litigation expense and the impact of curtailing the U.S. pension plan.

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 Sept. 30, 2015, total assets were $377 billion compared with $385 billion at Dec. 31, 2014. The decrease in total assets was primarily driven by the adoption of new accounting guidance related to consolidations effective Jan. 1, 2015. Deposits totaled $267 billion at Sept. 30, 2015 and $266 billion at Dec. 31, 2014. At Sept. 30, 2015, total interest-

bearing deposits were 52% of total interest-earning assets, compared with 51% at Dec. 31, 2014.

Total assets averaged $373 billion in the third quarter of 2015 compared with $380 billion in the third quarter of 2014 and $378 billion in the second quarter of 2015. The decrease in average total assets compared with the third quarter of 2014 was primarily driven by lower average interest-bearing deposits with banks, partially offset by higher federal funds sold and securities purchased under resale agreements. The decrease in average total assets compared with the second quarter of 2015 was primarily driven by lower average securities, partially offset by higher interest-bearing deposits held at the Federal Reserve and other central banks.

Total deposits averaged $255 billion in the third quarter of 2015 compared with $247 billion in the third quarter of 2014 and $256 billion in the second quarter of 2015. The increase in average total deposits compared with the third quarter of 2014 primarily reflects higher average noninterest-bearing deposits, time deposits and money market rate accounts. The decrease compared with the second quarter of 2015 was driven by lower average of time deposits offset by higher deposits in foreign offices.

At Sept. 30, 2015, we had $49 billion of liquid funds (which include interest-bearing deposits with banks and federal funds sold and securities purchased under resale agreements) and $91 billion of cash (including $82 billion of overnight deposits with the Federal Reserve and other central banks) for a total of $140 billion of available funds. This compares with available funds of $143 billion at Dec. 31, 2014. The decrease in available funds primarily reflects a lower level of interest-bearing deposits with the Federal Reserve and other central banks, partially offset by an increase in federal funds sold and securities purchased under resale agreements.

Total available funds as a percentage of total assets was 37% at both Sept. 30, 2015 and Dec. 31, 2014. Of the $49 billion in liquid funds held at Sept. 30, 2015, $20 billion was placed in interest-bearing deposits with large, highly-rated global financial institutions with a weighted-average life to maturity of approximately 42 days. Of the $20 billion, $5 billion was placed with banks in the Eurozone.

Investment securities were $120 billion, or 32% of total assets, at Sept. 30, 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. Government agencies debt, partially offset by a decrease in U.S. Treasury and state and political subdivisions investment securities.

Loans were $63 billion, or 17% of total assets, at Sept. 30, 2015, compared with $59 billion, or 15% of total assets, at Dec. 31, 2014. The increase primarily reflects higher financial institution loans, wealth management loans and mortgages and commercial real estate loans, partially offset by lower overdrafts and margin loans.

Long-term debt totaled $21.4 billion at Sept. 30, 2015 and $20.3 billion at Dec. 31, 2014. In the first nine months of 2015, the Parent issued $4.2 billion of senior debt and $2.7 billion of long-term debt matured. Additionally, the Parent called $600 million of senior debt in the first nine months of 2015.

Total The Bank of New York Mellon Corporation shareholders' equity increased to $38.2 billion from $37.4 billion at Dec. 31, 2014. The increase primarily reflects earnings retention, the issuance of $1 billion of noncumulative perpetual preferred stock and approximately $575 million resulting from stock awards, the exercise of stock options and stock issued for employee benefit plans, partially offset by share repurchases, foreign currency translation adjustments, a decrease in the unrealized gain on our investment securities portfolio and the impact of the decrease in our pension benefit obligation.

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

We have provided expanded disclosure on countries and territories that have experienced particular market focus on credit quality and are 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 or territory. 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 assets of consolidated investment management funds are solely available to settle the liabilities of the fund and to settle any investors' ownership liquidation requests, including any seed capital invested by BNY Mellon. Loss in the value of assets of consolidated investment management funds would only be incurred by BNY Mellon to the extent of our limited ownership interest.

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 depositary 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.

Recent concerns regarding financial conditions in Puerto Rico have resulted in increased focus on its ability to repay its debt. At Sept. 30, 2015, BNY Mellon had margin loan exposure of approximately $50 million where the collateral received has a concentration of Puerto Rican securities. We have increased our margin requirements and believe the impact of potential negative outcomes in Puerto Rico would not be material.

At Sept. 30, 2015 and Dec. 31, 2014, BNY Mellon had exposure of less than $1 million in each of Portugal, Greece and Ukraine.

The following tables present our on- and off-balance sheet exposure in Ireland, Italy, Spain and Russia at both Sept. 30, 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 Sept. 30, 2015<br>(in millions) | Ireland | Italy | Spain | Russia | Total |
|---|---|---|---|---|---|
| On-balance sheet exposure | | | | | |
| Gross: | | | | | |
| Deposits with banks (primarily interest-bearing) (a) | $85 | $189 | $347 | $4 | $625 |
| Investment securities (primarily sovereign debt and European Floating Rate Notes) (b) | 920 | 1,432 | 1,955 | — | 4,307 |
| Loans and leases (c) | 156 | 2 | 11 | 50 | 219 |
| Trading assets (d) | 151 | 2 | — | — | 153 |
| Total gross on-balance sheet exposure | 1,312 | 1,625 | 2,313 | 54 | 5,304 |
| Less: | | | | | |
| Collateral | 112 | 2 | — | — | 114 |
| Guarantees | — | 2 | 1 | — | 3 |
| Total collateral and guarantees | 112 | 4 | 1 | — | 117 |
| Total net on-balance sheet exposure | $1,200 | $1,621 | $2,312 | $54 | $5,187 |
| Off-balance sheet exposure | | | | | |
| Gross: | | | | | |
| Lending-related commitments (e) | $87 | $— | $— | $— | $87 |
| Letters of credit (f) | 53 | 3 | 13 | — | 69 |
| Total gross off-balance sheet exposure | 140 | 3 | 13 | — | 156 |
| Less: | | | | | |
| Collateral | 70 | — | 13 | — | 83 |
| Total net off-balance sheet exposure | $70 | $3 | $— | $— | $73 |
| Total exposure: | | | | | |
| Total gross on- and off-balance sheet exposure | $1,452 | $1,628 | $2,326 | $54 | $5,460 |
| Less: Total collateral and guarantees | 182 | 4 | 14 | — | 200 |
| Total net on- and off-balance sheet exposure | $1,270 | $1,624 | $2,312 | $54 | $5,260 |

(a) Interest-bearing deposits with banks represent a $43 million placement with an Irish financial institution, a $100 million placement with a financial institution in Italy, $346 million of placements with financial institutions in Spain and $136 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 $127 million, fair value, of residential mortgage-backed securities located in 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.

(c) Loans and leases primarily include $78 million of overdrafts in Ireland and $10 million of overdrafts in Spain resulting from our custody business, a $77 million commercial lease to a company located in Ireland, which was fully collateralized by U.S. Treasuries and $50 million of a syndicated loan to a large, state-owned financial institution 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 $151 million of receivables primarily due from Irish-domiciled investment funds and $2 million of receivables primarily due from financial institutions in Italy. Trading assets in Ireland were collateralized by $35 million of cash and U.S. Treasuries.

(e) Lending-related commitments include $87 million to an insurance company in Ireland, collateralized by $21 million of marketable securities.

(f) Letters of credit primarily represent $48 million extended to an insurance company in Ireland, collateralized by $46 million of marketable securities and $13 million extended to an insurance company in Spain, fully collateralized by marketable securities. Risk participations with counterparties in the above countries are excluded.

| On- and off-balance sheet exposure at Dec. 31, 2014<br>(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 |

(a) 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 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.

(b) Investment securities represent $146 million, fair value, of residential mortgage-backed securities located in 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.

(c) 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 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.

(d) 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 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.

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

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

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 | June 30, 2015 | 3Q15 change in unrealized gain (loss) | Sept. 30, 2015 | | | | Ratings | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (dollars in millions) | Fair value | | Amortized cost | Fair value | Fair value as a % of amortized cost (a) | Unrealized gain (loss) | AAA/ AA- | A+/ A- | BBB+/ BBB- | BB+ and lower | Not rated |
| Agency RMBS | $50,018 | $252 | $49,563 | $49,850 | 101 % | $287 | 100 % | — % | — % | — % | — % |
| U.S. Treasury | 24,222 | 11 | 23,548 | 23,642 | 100 | 94 | 100 | — | — | — | — |
| Sovereign debt/sovereign guaranteed (b) | 18,516 | 79 | 17,545 | 17,674 | 101 | 129 | 76 | 1 | 23 | — | — |
| Non-agency RMBS (c) | 2,040 | (24 ) | 1,548 | 1,938 | 81 | 390 | — | 1 | 2 | 90 | 7 |
| Non-agency RMBS | 1,024 | 1 | 955 | 973 | 94 | 18 | 2 | 8 | 20 | 69 | 1 |
| European floating rate notes (d) | 1,737 | (15 ) | 1,660 | 1,634 | 98 | (26 ) | 71 | 21 | — | 8 | — |
| Commercial MBS | 5,888 | (7 ) | 5,715 | 5,730 | 100 | 15 | 95 | 4 | 1 | — | — |
| State and political subdivisions | 4,548 | 20 | 4,258 | 4,334 | 102 | 76 | 80 | 17 | — | — | 3 |
| Foreign covered bonds (e) | 2,723 | (7 ) | 2,329 | 2,379 | 102 | 50 | 100 | — | — | — | — |
| Corporate bonds | 1,802 | 2 | 1,802 | 1,822 | 101 | 20 | 19 | 69 | 12 | — | — |
| CLOs | 2,245 | (10 ) | 2,297 | 2,291 | 100 | (6 ) | 100 | — | — | — | — |
| U.S. Government agencies | 1,856 | 5 | 1,569 | 1,572 | 100 | 3 | 100 | — | — | — | — |
| Consumer ABS | 3,348 | (10 ) | 3,138 | 3,129 | 100 | (9 ) | 100 | — | — | — | — |
| Other (f) | 3,008 | — | 3,047 | 3,055 | 100 | 8 | 48 | — | 49 | — | 3 |
| Total investment securities | $122,975 (g) | $297 | $118,974 | $120,023 (g) | 100 % | $1,049 (g)(h) | 91 % | 2 % | 5 % | 2 % | — % |

(a) Amortized cost before impairments.

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

(c) These RMBS were included in the former Grantor Trust and were marked-to-market in 2009. We believe these 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 and commercial MBS. Primarily consists of exposure to UK and Netherlands.

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

(f) Includes commercial paper with a fair value of $1.7 billion and $1.5 billion and money market funds with a fair value of $779 million and $770 million at June 30, 2015 and Sept. 30, 2015, respectively.

(g) Includes net unrealized losses on derivatives hedging securities available-for-sale of $71 million at June 30, 2015 and $417 million at Sept. 30, 2015.
(h) Unrealized gains of $714 million at Sept. 30, 2015 related to available-for-sale securities.

The fair value of our investment securities portfolio was $120.0 billion compared with $119.1 billion at Dec. 31, 2014. The increase primarily reflects additional investments in Agency RMBS and U.S. Government agencies debt, partially offset by a decrease in U.S. Treasury securities and state and political subdivisions investments.

At Sept. 30, 2015, the total investment securities portfolio had a net unrealized pre-tax gain of $1.0 billion compared with $1.3 billion at Dec. 31, 2014, including the impact of related hedges. The change in the net unrealized pre-tax gain was primarily driven by the realization of securities gains and changes in market interest rates and credit spreads.

The unrealized gain net of tax on our available-for-sale investment securities portfolio included in accumulated other comprehensive income was $481 million at Sept. 30, 2015 compared with $675 million at Dec. 31, 2014.

At Sept. 30, 2015, 91% of the securities in our portfolio were rated AAA/AA- compared with 90% 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) | 3Q15 | 2Q15 | 1Q15 | 4Q14 | 3Q14 |
|---|---|---|---|---|---|
| Amortizable purchase premium (net of discount) relating to investment securities: | | | | | |
| Balance at period end | $2,433 | $2,492 | $2,559 | $2,432 | $2,317 |
| Estimated average life remaining at period end (in years) | 4.6 | 4.7 | 4.5 | 4.8 | 4.6 |
| Amortization | $176 | $183 | $173 | $166 | $159 |
| Accretable discount related to the prior restructuring of the investment securities portfolio: | | | | | |
| Balance at period end | $401 | $420 | $386 | $413 | $465 |
| Estimated average life remaining at period end (in years) | 6.0 | 6.0 | 6.0 | 5.9 | 6.6 |
| Accretion | $33 | $32 | $32 | $36 | $40 |

(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) | 3Q15 | 2Q15 | 3Q14 | YTD15 | YTD14 |
|---|---|---|---|---|---|
| U.S. Treasury | $8 | $11 | $1 | $42 | $12 |
| Non-agency RMBS | (1) | (1) | 4 | (3) | — |
| Other | 15 | 6 | 15 | 23 | 48 |
| Total net securities gains | $22 | $16 | $20 | $62 | $60 |

On a quarterly basis, we perform our impairment analysis using several factors, including projected loss severities and default rates. In the third quarter of 2015, this analysis resulted in other-than-temporary credit losses of $1.2 million primarily related to our non-agency RMBS portfolio. At Sept. 30, 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 or decreased by less than $1 million (pre-tax). See Note 4 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 Sept. 30, 2015. The unrealized loss on these securities was $26 million at Sept. 30, 2015, compared with $8 million at Dec. 31, 2014.

European floating rate notes at Sept. 30, 2015 (a)

| (in millions) | RMBS | Other | Total fair value |
|---|---|---|---|
| United Kingdom | $986 | $74 | $1,060 |
| Netherlands | 428 | — | 428 |

| | | | |
|---|---|---|---|
| Ireland | 125 | — | 125 |
| Other | 21 | — | 21 |
| Total fair value | $1,560 | $74 | $1,634 |

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

See Note 15 of the Notes to Consolidated Financial Statements for details of securities by level in the fair value hierarchy.

Loans

| Total exposure – consolidated | Sept. 30, 2015 | | | Dec. 31, 2014 | | |
|---|---|---|---|---|---|---|
| (in billions) | Loans | Unfunded commitments | Total exposure | Loans | Unfunded commitments | Total exposure |
| Non-margin loans: | | | | | | |
| Financial institutions | $16.0 | $43.5 | $59.5 | $13.3 | $15.5 | $28.8 |
| Commercial | 2.1 | 17.5 | 19.6 | 1.7 | 18.7 | 20.4 |
| Subtotal institutional | 18.1 | 61.0 | 79.1 | 15.0 | 34.2 | 49.2 |
| Wealth management loans and mortgages | 12.6 | 1.7 | 14.3 | 11.2 | 1.7 | 12.9 |
| Commercial real estate | 3.7 | 2.7 | 6.4 | 2.5 | 2.7 | 5.2 |
| Lease financings | 2.0 | — | 2.0 | 2.2 | — | 2.2 |
| Other residential mortgages | 1.1 | — | 1.1 | 1.2 | — | 1.2 |
| Overdrafts | 5.2 | — | 5.2 | 5.9 | — | 5.9 |
| Other | 1.2 | — | 1.2 | 1.1 | — | 1.1 |
| Subtotal non-margin loans | 43.9 | 65.4 | 109.3 | 39.1 | 38.6 | 77.7 |
| Margin loans | 19.4 | 0.7 | 20.1 | 20.0 | 0.7 | 20.7 |
| Total | $63.3 | $66.1 | $129.4 | $59.1 | $39.3 | $98.4 |

Total exposures were $129.4 billion, an increase of 32% from $98.4 billion at Dec. 31, 2014. The increase in total exposure primarily reflects higher unfunded commitments in the financial institutions portfolio related to secured intraday credit provided to dealers in connection with their tri-party repo activity.

Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios comprised 61% of our total lending exposure at Sept. 30, 2015 and 50% at Dec. 31, 2014. The increase reflects higher unfunded commitments related to secured intraday credit provided to dealers in connection with their tri-party repo activity. 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 | Sept. 30, 2015 | | | | | Dec. 31, 2014 | | |
|---|---|---|---|---|---|---|---|---|
| portfolio exposure (dollar amounts in billions) | Loans | Unfunded commitments | Total exposure | % Inv. grade | % due <1 yr | Loans | Unfunded commitments | Total exposure |
| Securities industry | $3.7 | $27.5 | $31.2 | 99 % | 99 % | $3.1 | $ 1.1 | $4.2 |
| Banks | 9.3 | 2.1 | 11.4 | 87 | 91 | 7.6 | 1.7 | 9.3 |
| Asset managers | 1.9 | 5.2 | 7.1 | 99 | 85 | 2.0 | 4.8 | 6.8 |
| Insurance | 0.2 | 4.6 | 4.8 | 99 | 19 | 0.1 | 4.0 | 4.1 |
| Government | 0.1 | 2.4 | 2.5 | 95 | 63 | 0.1 | 2.9 | 3.0 |
| Other | 0.8 | 1.7 | 2.5 | 98 | 27 | 0.4 | 1.0 | 1.4 |
| Total | $16.0 | $43.5 | $59.5 | 96 % | 85 % | $13.3 | $ 15.5 | $28.8 |

The financial institutions portfolio exposure was $59.5 billion at Sept. 30, 2015 compared with $28.8 billion at Dec. 31, 2014. The increase primarily reflects higher unfunded commitments in the securities industry portfolio related to secured intraday credit provided to dealers in connection with their tri-party repo activity.

In April 2015, we fully converted the secured intraday credit provided to dealers in connection with

their tri-party repo activity 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. At Sept. 30, 2015, the secured intraday credit provided to dealers in connection with their tri-party repo activity totaled $26.9 billion and was primarily included in the securities industry portfolio.

BNY Mellon has reduced the amount of secured intraday credit it provides to dealers in connection with their tri-party repo activity 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 tri-party repo trades if those obligations exceed the committed credit facility. 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. Moving forward, BNY Mellon will continue to invest in and enhance its tri-party repo capabilities, including working closely with market participants to improve the process for settling Interbank General Collateral Finance repo trades.

Financial institution exposures are high-quality, with 96% of the exposures meeting the investment grade equivalent criteria of our internal credit rating classification at Sept. 30, 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, 85% expire within one year and 63% expire within 90 days. In addition, 66% 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 Sept. 30, 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 | Sept. 30, 2015 | | | | | Dec. 31, 2014 | | |
|---|---|---|---|---|---|---|---|---|
| (dollar amounts in billions) | Loans | Unfunded commitments | Total exposure | % Inv. grade | % due <1 yr | Loans | Unfunded commitments | Total exposure |
| Services and other | $0.8 | $ 5.6 | $ 6.4 | 95 % | 19 % | $0.8 | $ 5.9 | $ 6.7 |
| Manufacturing | 0.5 | 5.3 | 5.8 | 90 | 7 | 0.3 | 5.7 | 6.0 |
| Energy and utilities | 0.5 | 5.1 | 5.6 | 97 | 11 | 0.5 | 5.6 | 6.1 |
| Media and telecom | 0.3 | 1.5 | 1.8 | 93 | — | 0.1 | 1.5 | 1.6 |
| Total | $2.1 | $ 17.5 | $ 19.6 | 94 % | 11 % | $1.7 | $ 18.7 | $ 20.4 |

The commercial portfolio exposure decreased 4% to $19.6 billion at Sept. 30, 2015, from $20.4 billion at Dec. 31, 2014, primarily reflecting decreases in all of portfolios except for the media and telecom 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

| | Sept. 30, 2015 | June 30, 2015 | March 31, 2015 | Dec. 31, 2014 | Sept. 30, 2014 |
|---|---|---|---|---|---|
| Financial institutions | 96% | 96% | 92% | 93% | 93% |
| Commercial | 94% | 95% | 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 96% of our financial institutions portfolio and 94% of our commercial portfolio rated as investment grade at Sept. 30, 2015.

Wealth management loans and mortgages

Our wealth management exposure was $14.3 billion at Sept. 30, 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 61% at origination. In the wealth management portfolio, less than 1% of the mortgages were past due at Sept. 30, 2015.

At Sept. 30, 2015, the wealth management mortgage portfolio consisted of the following geographic concentrations: California - 22%; New York - 20%; Massachusetts - 14%; 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 $6.4 billion at Sept. 30, 2015 compared with $5.2 billion at Dec. 31, 2014.

At Sept. 30, 2015, 59% of our commercial real estate portfolio was secured. The secured portfolio is diverse by project type, with 55% secured by residential buildings, 25% secured by office buildings, 10% secured by retail properties and 10% 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 Sept. 30, 2015, our commercial real estate portfolio consists of the following concentrations: REITs and real estate operating companies - 46%; New York metro - 36%; and other - 18%.

Lease financings

The leasing portfolio exposure totaled $2.0 billion and included $112 million of airline exposures at Sept. 30, 2015, compared with $2.2 billion of leasing exposures, including $146 million of airline exposures, at Dec. 31, 2014. At Sept. 30, 2015, approximately 80% of the leasing portfolio exposure was investment grade.

At Sept. 30, 2015, the $1.9 billion non-airline lease financing portfolio consisted of exposures backed by well-diversified assets, primarily large-ticket transportation equipment.

At Sept. 30, 2015, our $112 million of exposure to the airline industry consisted of $51 million to major U.S. carriers, $52 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 mortgages portfolio primarily consists of 1-4 family residential mortgage loans and totaled $1.1 billion at Sept. 30, 2015 and $1.2 billion at Dec. 31, 2014. Included in this portfolio at Sept. 30, 2015 are $301 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 Sept. 30, 2015, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 76% at origination and 17% 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 $7.6 billion of loans at Sept. 30, 2015 and $8.7 billion at Dec. 31, 2014 related to a term loan program that offers fully collateralized loans to broker-dealers.

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<br>(dollar amounts in millions) | Sept. 30,<br>2015 | June 30,<br>2015 | Dec. 31,<br>2014 | Sept. 30,<br>2014 |
|---|---|---|---|---|
| Margin loans | $19,414 | $20,449 | $20,034 | $17,548 |
| Non-margin loans | 43,557 | 42,425 | 39,077 | 39,979 |
| Total loans | $62,971 | $62,874 | $59,111 | $57,527 |
| Beginning balance of allowance for credit losses | $278 | $283 | $288 | $311 |
| Provision for credit losses | 1 | (6) | 1 | (19) |
| Net (charge-offs) recoveries: | | | | |
| Financial institutions | — | 1 | 1 | — |
| Other residential mortgages | 1 | — | — | 1 |
| Commercial | — | — | (8) | (4) |
| Foreign | — | — | — | (1) |

| | | | | |
|---|---|---|---|---|
| Commercial real estate | — | — | (2) | — |
| Net (charge-offs) recoveries | $1 | $1 | $(9) | $(4) |
| Ending balance of allowance for credit losses | $280 | $278 | $280 | $288 |
| Allowance for loan losses | $181 | $183 | $191 | $191 |
| Allowance for lending-related commitments | 99 | 95 | 89 | 97 |
| Allowance for loan losses as a percentage of total loans | 0.29 % | 0.29 % | 0.32 % | 0.33 % |
| Allowance for loan losses as a percentage of non-margin loans | 0.42 | 0.43 | 0.49 | 0.48 |
| Total allowance for credit losses as a percentage of total loans | 0.44 | 0.44 | 0.47 | 0.50 |
| Total allowance for credit losses as a percentage of non-margin loans | 0.64 | 0.66 | 0.72 | 0.72 |

Net recoveries of $1 million in the third quarter of 2015 were reflected in the other residential mortgages portfolio. Net recoveries of $1 million in the second quarter of 2015 were reflected in the financial institutions portfolio. Net charge-offs of $4 million in the third quarter of 2014 were primarily reflected in the commercial loan portfolio.

The provision for credit losses was $1 million in the third quarter of 2015, a credit of $6 million in the second quarter of 2015 and a credit of $19 million in the third quarter of 2014.

The total allowance for credit losses was $280 million at Sept. 30, 2015, $280 million at Dec. 31, 2014 and $288 million at Sept. 30, 2014. The ratio of the total allowance for credit losses to non-margin loans was 0.64% at Sept. 30, 2015, 0.72% at Dec. 31, 2014 and 0.72% at Sept. 30, 2014. The ratio of the allowance for loan losses to non-margin loans was 0.42% at Sept. 30, 2015 compared with 0.49% at Dec. 31, 2014 and 0.48% at Sept. 30, 2014. The decrease in the total allowance for credit losses and the lower ratios at Sept. 30, 2015 compared with Sept. 30, 2014 primarily reflects an improvement in the credit quality in the loan portfolio.

We had $19.4 billion of secured margin loans on our balance sheet at Sept. 30, 2015 compared with $20.0 billion at Dec. 31, 2014 and $17.5 billion at Sept. 30, 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:

| Allocation of allowance | Sept. 30, 2015 | June 30, 2015 | Dec. 31, 2014 | Sept. 30, 2014 |
|---|---|---|---|---|
| Commercial | 27 % | 27 % | 21 % | 25 % |
| Commercial real estate | 22 | 21 | 18 | 16 |
| Foreign | 14 | 13 | 16 | 14 |
| Other residential mortgages | 13 | 13 | 14 | 17 |
| Financial institutions | 10 | 11 | 11 | 9 |
| Wealth management (a) | 8 | 8 | 8 | 7 |
| Lease financing | 6 | 7 | 12 | 12 |
| | 100 % | 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 $88 million, while if each credit were rated one grade worse, the allowance would have increased by $208 million. Similarly, if the loss given default were one rating worse,

the allowance would have increased by $33 million, while if the loss given default were one rating better, the allowance would have decreased by $29 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) | Sept. 30, 2015 | June 30, 2015 | Dec. 31, 2014 |
|---|---|---|---|
| Loans: | | | |
| Other residential mortgages | $103 | $110 | $112 |
| Wealth management loans and mortgages | 12 | 11 | 12 |
| Commercial real estate | 1 | 1 | 1 |
| Total nonperforming loans | 116 | 122 | 125 |
| Other assets owned | 7 | 5 | 3 |
| Total nonperforming assets (a) | $123 | $127 | $128 |
| Nonperforming assets ratio | 0.20 % | 0.20 % | 0.22 % |
| Nonperforming assets ratio, excluding margin loans | 0.3 | 0.3 | 0.3 |
| Allowance for loan losses/nonperforming loans | 156.0 | 150.0 | 152.8 |
| Allowance for loan losses/nonperforming assets | 147.2 | 144.1 | 149.2 |
| Total allowance for credit losses/nonperforming loans | 241.4 | 227.9 | 224.0 |
| Total allowance for credit losses/nonperforming assets | 227.6 | 218.9 | 218.8 |

(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 $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. In the second quarter of 2015, BNY Mellon adopted the new accounting guidance included in ASU 2015-02, Consolidations. As a result, we deconsolidated substantially all of the loans of consolidated investment management funds retrospectively to Jan. 1, 2015.

| Nonperforming assets activity (in millions) | Sept. 30, 2015 | June 30, 2015 | Dec. 31, 2014 |
|---|---|---|---|
| Balance at beginning of period | $127 | $128 | $147 |
| Additions | 4 | 4 | 4 |
| Return to accrual status | (1) | (1) | (1) |
| Charge-offs | (1) | — | (3) |
| Paydowns/sales | (6) | (4) | (19) |
| Balance at end of period | $123 | $127 | $128 |

Nonperforming assets were $123 million at Sept. 30, 2015, a decrease of $4 million compared with $127 million at June 30, 2015.

Deposits

Total deposits were $266.8 billion, an increase of less than 1% compared with $265.9 billion at Dec. 31, 2014. The increase in deposits reflects higher interest-bearing deposits in non-U.S. and U.S. offices, offset by lower noninterest-bearing deposits.

Noninterest-bearing deposits were $101.1 billion at Sept. 30, 2015 compared with $104.3 billion at Dec. 31, 2014. Interest-bearing deposits were $165.7 billion at Sept. 30, 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

| | Quarter ended | | |
|---|---|---|---|
| (dollars in millions) | Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 |
| Maximum daily balance during the quarter | $26,813 | $27,864 | $28,746 |
| Average daily balance | $14,796 | $16,732 | $20,620 |
| Weighted-average rate during the quarter | (0.04)% | (0.02)% | (0.07)% |
| Ending balance | $8,824 | $10,020 | $9,687 |
| Weighted-average rate at period end | (0.08)% | 0.02% | (0.05)% |

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 | Quarter ended | | |
|---|---|---|---|
| (dollars in millions) | Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 |
| Maximum daily balance during the quarter | $24,135 | $26,988 | $20,244 |
| Average daily balance (a) | $21,941 | $22,062 | $18,041 |
| Weighted-average rate during the quarter (a) | 0.06 % | 0.07 % | 0.10 % |
| Ending balance | $22,236 | $22,050 | $20,155 |
| Weighted-average rate at period end | 0.06 % | 0.07 % | 0.13 % |

(a) The weighted-average rate is calculated based on, and is applied to, the average interest-bearing payables to customers and broker-dealers, which were $11,504 million in the third quarter of 2015, $11,234 million in the second quarter of 2015 and $9,705 million in the third 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.

| Commercial paper | Quarter ended | | |
|---|---|---|---|
| (dollars in millions) | Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 |
| Maximum daily balance during the quarter | $4,801 | $4,849 | $5,003 |
| Average daily balance | $2,195 | $2,892 | $3,654 |
| Weighted-average rate during the quarter | 0.11 % | 0.10 % | 0.07 % |
| Ending balance | $— | $— | $— |
| Weighted-average rate at period end | — % | — % | — % |

The decrease in the average daily balance of commercial paper in the third quarter of 2015 was primarily driven by the termination of the Parent’s commercial paper program in August 2015.

Information related to other borrowed funds is presented below.

| Other borrowed funds | Quarter ended | | |
|---|---|---|---|
| (dollars in millions) | Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 |
| Maximum daily balance during the quarter | $1,065 | $2,231 | $1,744 |
| Average daily balance | $628 | $903 | $933 |
| Weighted-average rate during the quarter | 1.18 % | 1.26 % | 0.47 % |
| Ending balance | $648 | $706 | $852 |
| Weighted-average rate at period end | 1.15 % | 1.62 % | 0.43 % |

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 Company’s consolidated HQLA and LCR as of Sept. 30, 2015.

| Consolidated HQLA and LCR (in billions) | Sept. 30, 2015 | |
|---|---|---|
| Securities (a) | $110 | |
| Cash (b) | 80 | |
| Total consolidated HQLA (c) | $190 | |
| | | |
| Liquidity coverage ratio (d) | 108 | % |

(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 $170 billion.
(d) Based on our interpretation of the final rule issued by the U.S. federal banking agencies to implement the LCR in the U.S. (“Final LCR Rule”).

Starting on Jan. 1, 2015, we and our domestic bank subsidiaries are required to meet an LCR of 80%, calculated monthly through June 30, 2015 and calculated daily since July 1, 2015. 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 Sept. 30, 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. We are evaluating the FDIC’s brokered deposits’ FAQ to determine the implications, if any, on our deposit balances relative to the LCR and other requirements.

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.

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, including the adoption of various liquidity risk management standards and maintenance of 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 decrease in available funds at Sept. 30, 2015 compared with Dec. 31, 2014 primarily resulted from lower interest-bearing deposits with the Federal Reserve and other central banks, partially offset by an increase in federal funds sold and securities purchased under resale agreements.

| Available and liquid funds (in millions) | Sept. 30, 2015 | Dec. 31, 2014 | Average 3Q15 | 2Q15 | 3Q14 |
|---|---|---|---|---|---|
| Available funds: | | | | | |
| Liquid funds: | | | | | |
| Interest-bearing deposits with banks | $20,002 | $19,495 | $20,549 | $20,235 | $34,882 |
| Federal funds sold and securities purchased under resale agreements | 28,901 | 20,302 | 25,366 | 23,545 | 15,683 |
| Total liquid funds | 48,903 | 39,797 | 45,915 | 43,780 | 50,565 |
| Cash and due from banks | 8,234 | 6,970 | 6,140 | 6,785 | 6,225 |
| Interest-bearing deposits with the Federal Reserve and other central banks | 82,426 | 96,682 | 84,175 | 81,846 | 88,713 |
| Total available funds | $139,563 | $143,449 | $136,230 | $132,411 | $145,503 |
| Total available funds as a percentage of total assets | 37 % | 37 % | 36 % | 35 % | 38 % |

On an average basis for the nine months ended Sept. 30, 2015 and the nine months ended Sept. 30, 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 $25.9 billion and $29.1 billion, respectively. The decrease primarily reflects lower securities sold under repurchase agreements and trading liabilities, partially offset by higher money market rate accounts. Average foreign deposits, primarily from our European-based Investment Services business, were $110.5 billion for the nine months ended Sept. 30, 2015 compared with $108.7 billion for the nine months ended Sept. 30, 2014. The increase primarily reflects growth in client deposits. Domestic savings, interest-bearing demand and time deposits averaged $49.0 billion for the nine months ended Sept. 30, 2015 compared with $45.9 billion for the nine months ended Sept. 30, 2014. The increase primarily reflects higher time deposits.

Average payables to customers and broker-dealers were $11.2 billion for the nine months ended Sept. 30, 2015 and $9.2 billion for the nine months ended Sept. 30, 2014. Payables to customers and broker-dealers are driven by customer trading activity and market volatility. Long-term debt averaged $20.6 billion for the nine months ended Sept. 30, 2015 and $20.4 billion for the nine months ended Sept. 30, 2014. Average noninterest-bearing deposits increased to $86.5 billion for the nine months ended Sept. 30, 2015 from $80.5 billion for the nine months ended Sept. 30, 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 three major sources of liquidity:

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

Subsequent to Sept. 30, 2015, our bank subsidiaries could declare dividends to the Parent of approximately $2.8 billion, without the need for a regulatory waiver. The amount of dividends declared by our bank subsidiaries may be impacted by their path to compliance with the SLR. In addition, at Sept. 30, 2015, non-bank subsidiaries of the Parent had liquid assets of approximately $1.5 billion.

In August 2015, BNY Mellon paid a quarterly common stock cash dividend of $0.17 per common share. Our common stock dividend payout ratio was 24% for the first nine 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 $2.2 billion in the third quarter of 2015 and $3.7 billion in the third quarter of 2014. The Parent’s commercial paper program ended in August 2015. There was no overnight commercial paper outstanding issued by the Parent at Dec. 31, 2014.

The Parent had cash of $8.5 billion at Sept. 30, 2015, compared with $7.4 billion at Dec. 31, 2014, an

increase of $1.1 billion primarily reflecting the issuance of long-term debt and preferred stock and a net increase in loans from subsidiaries, partially offset by maturities of long-term debt and net 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 third quarter of 2015, we repurchased 15.8 million common shares at an average price of $43.57 per common share for a total cost of $690 million. In

the fourth quarter of 2015, we are authorized to repurchase $456 million worth of common shares.

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 Sept. 30, 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 are 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 | Baa1 | 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 | (a) | Stable | Stable |
| | | | | |
| The Bank of New York Mellon: | | | | |
| Long-term senior debt | Aa2 | AA- | AA | AA |
| Long-term deposits | Aa1 | AA- | AA+ | AA |
| Short-term deposits | P1 | A-1+ | F1+ | R-1 (high) |
| | | | | |
| BNY Mellon, N.A.: | | | | |
| Long-term senior debt | Aa2 | AA- | AA (b) | AA |
| Subordinated debt | Aa3 | A+ (a) | A+ | NR |
| Long-term deposits | Aa1 | AA- | AA+ | AA |
| Short-term deposits | P1 | A-1+ | F1+ | R-1 (high) |
| | | | | |
| Outlook - Banks: | Stable | Stable | Stable | Stable |

(a) Under review for downgrade.
(b) Represents senior debt issuer default rating.
NR - Not rated.

As a result of S&P's government support assumptions on certain U.S. financial institutions, the Parent's S&P ratings benefit from one notch of "lift." Similarly, The Bank of New York Mellon's and BNY Mellon, N.A.'s ratings benefit from one notch of "lift" from S&P.

In March 2015, S&P indicated that it could remove assumed government support in its ratings on the eight U.S. G-SIBs, including the Parent. On Nov. 2, 2015, the eight U.S. G-SIBs, including the Parent, were placed on CreditWatch with negative implications as S&P nears a decision regarding whether to withdraw its government support assumptions. The withdrawal of assumed

government support may result in a one-notch downgrade of the Parent's long-term senior and subordinated debt as well as the subordinated debt of BNY Mellon, N.A. In addition, S&P indicated that its outlooks on The Bank of New York Mellon and BNY Mellon, N.A. are stable. For further discussion on the impact of a credit rating downgrade, see Note 17 of the Notes to Consolidated Financial Statements and in our 2014 Annual Report, see our credit ratings Risk Factor.

Long-term debt totaled $21.4 billion at Sept. 30, 2015 and $20.3 billion at Dec. 31, 2014. In the first nine months of 2015, the Parent issued $4.2 billion of senior debt, partially offset by the maturity of $2.7

billion of long-term debt. Additionally, the Parent called $600 million of senior debt in the first nine months of 2015. The Parent has $400 million of long-term debt that will mature in the fourth quarter of 2015.

The following table presents the long-term debt issued by the Parent in the third quarter of 2015.

| Debt issuances<br>(in millions) | Quarter ended<br>Sept. 30, 2015 |
|---|---|
| Senior medium-term notes: | |
| 2.6% senior medium-term notes due 2020 | $1,100 |
| 3-month LIBOR + 87 bps senior medium-term notes due 2020 | 300 |
| Total debt issuances | $1,400 |

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 114.4% at Sept. 30, 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 third 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 $37 million, in aggregate, in the third quarter of 2015.

Statement of cash flows

Cash provided by operating activities was $4.0 billion in the nine months ended Sept. 30, 2015 compared with $3.3 billion in the nine months ended Sept. 30, 2014. In both the first nine months of 2015 and first nine months of 2014, cash flows from operations were principally the result of earnings and changes in trading activities.

Cash used for investing activities was $248 million in the nine months ended Sept. 30, 2015 compared with $10.7 billion in the nine months ended Sept. 30, 2014. In the first nine months of 2015, purchases of securities, changes in federal funds sold and securities purchased under resale agreements and changes in loans were significant uses of funds, partially offset by sales, paydowns and maturities of securities available-for-sale and changes in interest-bearing deposits with the Federal Reserve and other central banks. In the first nine months of 2014, purchases of securities, changes in federal funds sold and securities purchased under resale agreements and an increase in loans were significant uses of funds, partially offset by sales, paydowns and maturities of securities and decreases in interest-bearing deposits with banks and with the Federal Reserve and other central banks.

Cash used for financing activities was $2.5 billion in the nine months ended Sept. 30, 2015 compared with cash provided by financing activity of $7.4 billion in the nine months ended Sept. 30, 2014. In the first nine months of 2015, the repayment of long-term debt, changes in federal funds purchased and securities sold under repurchase agreements and treasury stock repurchases were significant uses of funds, partially offset by the issuance of long-term debt, changes in payables to customers and broker-dealers and the issuance of preferred stock. In the first nine months of 2014, changes in deposits and the issuance of long-term debt were significant sources of funds, partially offset by the repayment of long-term debt and treasury stock repurchases.

Capital

| Capital data<br>(dollar amounts in millions except per share amounts; common shares in thousands) | Sept. 30, 2015 | June 30, 2015 | Dec. 31, 2014 |
|---|---|---|---|
| Average common equity to average assets | 9.5 % | 9.4 % | 9.6 % |
| | | | |
| At period end: | | | |
| BNY Mellon shareholders' equity to total assets ratio – GAAP (a) | 10.1 % | 9.7 % | 9.7 % |
| BNY Mellon common shareholders' equity to total assets ratio – GAAP (a) | 9.4 % | 9.0 % | 9.3 % |
| BNY Mellon tangible common shareholders' equity to tangible assets of operations ratio – Non-GAAP (a) | 6.2 % | 6.2 % | 6.5 % |
| Total BNY Mellon shareholders' equity – GAAP | $38,170 | $38,270 | $37,441 |
| Total BNY Mellon common shareholders' equity – GAAP | $35,618 | $35,718 | $35,879 |
| BNY Mellon tangible common shareholders' equity – Non-GAAP (a) | $16,568 | $16,441 | $16,439 |
| Book value per common share – GAAP (a) | $32.59 | $32.28 | $32.09 |
| Tangible book value per common share – Non-GAAP (a) | $15.16 | $14.86 | $14.70 |
| Closing stock price per common share | $39.15 | $41.97 | $40.57 |
| Market capitalization | $42,789 | $46,441 | $45,366 |
| Common shares outstanding | 1,092,953 | 1,106,518 | 1,118,228 |
| | | | |
| Cash dividends per common share | $0.17 | $0.17 | $0.17 |
| Common dividend payout ratio | 23 % | 23 % | 94 % |
| Common dividend yield (annualized) | 1.7 % | 1.6 % | 1.7 % |

(a) See "Supplemental information – Explanation of GAAP and Non-GAAP financial measures" beginning on page 52 for a reconciliation of GAAP to Non-GAAP.

Total The Bank of New York Mellon Corporation shareholders' equity increased to $38.2 billion from $37.4 billion at Dec. 31, 2014. The increase primarily reflects earnings retention, the issuance of $1 billion of noncumulative perpetual preferred stock and approximately $575 million resulting from stock awards, the exercise of stock options and stock issued for employee benefit plans, partially offset by share repurchases, foreign currency translation adjustments, a decrease in the unrealized gain on our investment securities portfolio and the impact of the decrease in our pension benefit obligation.

The unrealized gain net of tax on our investment securities portfolio recorded in accumulated other comprehensive income was $481 million compared with $675 million at Dec. 31, 2014. The decrease in the unrealized gain, net of tax, was primarily driven by the realization of securities gains and changes in market interest rates and credit spreads.

In the first nine months of 2015, we repurchased 45.5 million common shares at an average price of $42.29 per common share for a total cost of $1.9 billion.

On Oct. 20, 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 Nov. 13, 2015 to shareholders of record as of the close of business on Nov. 2, 2015.

BNY Mellon's tangible common shareholders' equity to tangible assets of operations ratio (Non-GAAP) was 6.2% at Sept. 30, 2015 and 6.5% at Dec. 31, 2014. The decrease primarily reflects an increase in tangible 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 Sept. 30, 2015, June 30, 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 ratios and, in the case of our bank subsidiaries, the CET1 ratio and 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 U.S. 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 U.S. 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 estimated Basel III CET1 ratios on a fully phased-in basis are based on our current interpretation of the U.S. capital rules. RWA at June 30, 2015 and Dec. 31, 2014 for credit risk under the estimated fully phased-in Advanced Approach reflects 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 estimated fully phased-in Advanced Approach RWA at Sept. 30, 2015 no longer assumes the use of this methodology. The leverage capital ratio is not impacted.

Our risk-based capital adequacy is determined using the higher of RWA determined using the Advanced Approach and Standardized 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 Sept. 30, 2015, June 30, 2015 and Dec. 31, 2014. Our consolidated and largest bank subsidiary, The Bank of New York Mellon, regulatory capital ratios are shown below.

| Consolidated and largest bank subsidiary regulatory capital ratios | Sept. 30, 2015 Well capitalized | | Minimum required | | Capital ratios | | June 30, 2015 | | Dec. 31, 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated regulatory capital ratios: | | | | | | | | | | |
| CET1 ratio | N/A | (a) | 4.5 | % | 10.5 | % | 10.9 | % | 11.2 | % |
| Tier 1 capital ratio | 6 | % | 6 | % | 11.9 | % | 12.5 | % | 12.2 | % |
| Total (Tier 1 plus Tier 2) capital ratio | 10 | % | 8 | % | 12.2 | % | 12.8 | % | 12.5 | % |
| Leverage capital ratio | N/A | (a) | 4 | % | 5.9 | % | 5.8 | % | 5.6 | % |
| Selected regulatory capital ratios – fully phased-in – Non-GAAP: | | | | | | | | | | |
| Estimated CET1 ratio: | | | | | | | | | | |
| Standardized Approach | (b) | | (b) | | 9.9 | % | 10.0 | % | 10.6 | % |
| Advanced Approach | (b) | | (b) | | 9.3 | % | 9.9 | % | 9.8 | % |
| Estimated SLR | N/A | | 3 | % | 4.8 | % | 4.6 | % | 4.4 | % |
| The Bank of New York Mellon regulatory capital ratios: | | | | | | | | | | |
| CET1 ratio | 6.5 | % | 4.5 | % | 11.4 | % | 11.4 | % | N/A | |
| Tier 1 capital ratio | 8 | % | 6 | % | 11.8 | % | 11.9 | % | 12.4 | % |
| Total (Tier 1 plus Tier 2) capital ratio | 10 | % | 8 | % | 12.0 | % | 12.1 | % | 12.6 | % |
| Leverage capital ratio | 5 | % | 4 | % | 5.7 | % | 5.4 | % | 5.2 | % |

| | | | | | |
|---|---|---|---|---|---|
| Selected regulatory capital ratios – fully phased-in – Non-GAAP: | | | | | |
| Estimated SLR | 6 % | 3 % | 4.6 % | N/A | N/A |

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

(b) See page 45 for the capital ratios with the phase-in of the capital conservation buffer and the estimated U.S. G-SIB surcharge.

N/A – Not applicable.

Our estimated Basel III CET1 ratio (Non-GAAP) calculated under the Advanced Approach on a fully phased-in basis was 9.3% at Sept. 30, 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 9.9% at Sept. 30, 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 higher RWA resulting from operational risk and the impact of no longer assuming use of the simple VaR methodology, partially offset by lower RWA resulting from the deconsolidation of certain consolidated investment management funds.

The estimated fully phased-in SLR (Non-GAAP) of 4.8% at Sept. 30, 2015 and 4.4% at Dec. 31, 2014 was based on our interpretation of the U.S. capital rules, as supplemented by the Federal Reserve’s final rules on the SLR.

For additional information on the U.S. 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.

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, further implementation

guidance from regulators, market practices and standards and any changes BNY Mellon may make to its businesses. As a consequence of these factors, our capital ratios may materially change, and may be volatile over time and from period to period.

Minimum capital ratios and capital buffers

The U.S. capital rules include a series of buffers and surcharges over required minimums that apply to bank holding companies, including BNY Mellon, which are being phased-in over time. Banking organizations with a risk-based ratio or SLR above the minimum required level, but with a risk-based ratio or SLR below the minimum level with buffers, will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. Different regulatory capital minimums, buffers and surcharges apply to our banking subsidiaries.

The U.S. capital rules introduced a capital conservation buffer and countercyclical capital buffer that add to the minimum regulatory capital ratios presented above. The capital conservation buffer is designed to absorb losses during periods of economic stress and applies to all banking organizations. During periods of excessive growth, the capital conservation buffer may be expanded up to an additional 2.5% through the imposition of a countercyclical capital buffer. The countercyclical capital buffer, when applicable, applies only to Advanced Approaches banking organizations. The countercyclical capital buffer is initially set to zero, but it could increase if the banking agencies determine that excessive credit in the broader markets could result in systemic disruption.

BNY Mellon will also be subject to an additional G-SIB surcharge, which will be implemented as an extension of the capital conservation buffer and must be satisfied with CET1 capital. On July 20, 2015, the Federal Reserve published

final rules to implement the G-SIB surcharge. BNY Mellon may be subject to a G-SIB surcharge that is greater than the prior estimate of 1% under the Basel G-SIB framework and the estimate of 1% under the final G-SIB rule release.

In addition, the U.S. capital rules include an SLR to become effective on Jan. 1, 2018, although commencing in January 2015 each Advanced Approaches banking organization is required to calculate and report its SLR. BNY Mellon will be

subjected to an enhanced SLR, which will require a buffer in excess of 2% over the minimum SLR. The insured depository institution subsidiaries of the U.S. G-SIBs, including those of BNY Mellon, must maintain a 6% SLR to be considered "well capitalized."

These buffers, other than the SLR buffer, and surcharges will be phased in beginning on Jan. 1, 2016 until fully implemented on Jan. 1, 2019. The

following table presents the minimum capital ratio requirements with buffers and surcharges, as phased-in. This table does not include the imposition of a countercyclical capital buffer. The U.S. capital rules also provide for transitional arrangements for qualifying instruments, deductions, and adjustments, which are not reflected in this table. Buffers and surcharges are not applicable to the leverage capital ratio.

| Consolidated capital ratio requirements | Minimum ratios | Minimum ratios with buffers, as phased-in | | | | |
|---|---|---|---|---|---|---|
| | | 2015 | 2016 | 2017 | 2018 | 2019 |
| Capital conservation buffer (CET1) | | N/A | 0.625 % | 1.25 % | 1.875 % | 2.5 % |
| U.S. G-SIB surcharge (CET1) (a) | | N/A | 0.250 % | 0.50 % | 0.750 % | 1.0 % |
| CET1 ratio | 4.5 % | 4.5 % | 5.375 % | 6.25 % | 7.125 % | 8.0 % |
| Tier 1 capital ratio | 6.0 % | 6.0 % | 6.875 % | 7.75 % | 8.625 % | 9.5 % |
| Total capital ratio | 8.0 % | 8.0 % | 8.875 % | 9.75 % | 10.625 % | 11.5 % |
| | | | | | | |
| Enhanced SLR buffer (Tier 1 capital) | | N/A | N/A | N/A | 2.0 % | 2.0 % |
| SLR | 3.0 % | N/A | N/A | N/A | 5.0 % | 5.0 % |

(a) Federal Reserve published estimate.

N/A - Not applicable.

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

| Estimated Basel III CET1 generation presented on a fully phased-in basis – Non-GAAP | Quarter ended |
|---|---|
| (in millions) | Sept. 30, 2015 |
| Estimated fully phased-in Basel III CET1 – Non-GAAP – Beginning of period | $15,931 |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation – GAAP | 820 |
| Goodwill and intangible assets, net of related deferred tax liabilities | 227 |
| Gross Basel III CET1 generated | 1,047 |
| Capital deployed: | |
| Dividends | (190) |
| Common stock repurchased | (690) |
| Total capital deployed | (880) |
| Other comprehensive income (loss): | |
| Foreign currency translation | (147) |
| Unrealized (loss) on assets available-for-sale | (6) |
| Pension liabilities | 23 |
| Unrealized gain on cash flow hedges | — |
| Total other comprehensive (loss) | (130) |
| Additional paid-in capital (a) | 90 |
| Other additions (deductions): | |

| | |
|---|---|
| Net pension fund assets | 3 |
| Deferred tax assets | (2) |
| Cash flow hedges | 3 |
| Embedded goodwill | 18 |
| Other | (3) |
| Total other (deductions) | 19 |
| Net Basel III CET1 generated | 146 |
| Estimated fully phased-in Basel III CET1 – Non-GAAP – End of period | $16,077 |

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

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 total leverage exposure for estimated SLR purposes.

| Basel III capital components and ratios (a) | Sept. 30, 2015 | | Dec. 31, 2014 | |
|---|---|---|---|---|
| (dollars in millions) | Transitional Approach (a) | Fully phased-in Basel III - Non-GAAP | Transitional Approach (a) | Fully phased-in Basel III - Non-GAAP |
| CET1: | | | | |
| Common shareholders' equity | $36,143 | $35,618 | $36,326 | $35,879 |
| Goodwill and intangible assets | (17,401) | (19,050) | (17,111) | (19,440) |
| Net pension fund assets | (42) | (106) | (17) | (87) |
| Equity method investments | (300) | (356) | (314) | (401) |
| Deferred tax assets | (8) | (20) | (4) | (18) |
| Other | (5) | (9) | 4 | (2) |
| Total CET1 | 18,387 | 16,077 | 18,884 | 15,931 |
| Other Tier 1 capital: | | | | |
| Preferred stock | 2,552 | 2,552 | 1,562 | 1,562 |
| Trust preferred securities | 76 | — | 156 | — |
| Disallowed deferred tax assets | (12) | — | (14) | — |
| Net pension fund assets | (64) | — | (69) | — |
| Other | (28) | (24) | (17) | (12) |
| Total Tier 1 capital | 20,911 | 18,605 | 20,502 | 17,481 |
| Tier 2 capital: | | | | |
| Trust preferred securities | 227 | — | 156 | — |
| Subordinated debt | 249 | 249 | 298 | 298 |
| Allowance for credit losses | 280 | 280 | 280 | 280 |
| Other | (9) | (9) | (11) | (11) |
| Total Tier 2 capital - Standardized Approach | 747 | 520 | 723 | 567 |
| Excess of expected credit losses | 24 | 24 | 13 | 24 |
| Less: Allowance for credit losses | 280 | 280 | 280 | 280 |
| Total Tier 2 capital - Advanced Approach | $491 | $264 | $456 | $311 |
| Total capital: | | | | |
| Standardized Approach | $21,658 | $19,125 | $21,225 | $18,048 |
| Advanced Approach | $21,402 | $18,869 | $20,958 | $17,792 |
| Risk-weighted assets: | | | | |
| Standardized Approach (b) | $164,701 | $162,931 | $125,562 | $150,881 |
| Advanced Approach: | | | | |
| Credit Risk | $114,104 | $112,228 | $120,122 | $114,105 |
| Market Risk | 2,617 | 2,617 | 3,046 | 3,046 |
| Operational Risk | 58,938 | 58,938 | 45,112 | 45,112 |
| Total Advanced Approach | $175,659 | $173,783 | $168,280 | $162,263 |
| Standardized Approach: | | | | |
| Basel III CET1 ratio | 11.2% | 9.9% | 15.0% | 10.6% |

| | | | | |
|---|---|---|---|---|
| Tier 1 capital ratio | 12.7 % | 11.4 % | 16.3 % | 11.6 % |
| Total (Tier 1 plus Tier 2) capital ratio | 13.1 % | 11.7 % | 16.9 % | 12.0 % |
| | | | | |
| Advanced Approach: | | | | |
| Basel III CET1 ratio | 10.5 % | 9.3 % | 11.2 % | 9.8 % |
| Tier 1 capital ratio | 11.9 % | 10.7 % | 12.2 % | 10.8 % |
| Total (Tier 1 plus Tier 2) capital ratio | 12.2 % | 10.9 % | 12.5 % | 11.0 % |
| | | | | |
| Average assets for leverage capital purposes | $356,152 | | $368,140 | |
| Total leverage exposure for estimated SLR purposes - Non-GAAP | | $390,123 | | $398,813 |

(a) Reflects transitional adjustments to CET1, Tier 1 capital and Tier 2 capital required in 2015 under the U.S. capital rules.

(b) RWA under the Standardized Approach at Dec. 31, 2014 was determined using a Basel I-based calculation. Effective Jan. 1, 2015, we implemented the Basel III Standardized Approach which used a broader array of more risk sensitive risk-weighting categories.

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 Sept. 30, 2015.

Capital above thresholds at Sept. 30, 2015

| (in millions) | Consolidated | | The Bank of New York Mellon (b) |
|---|---|---|---|
| CET1 | $10,482 | (a) | $6,870 |
| Tier 1 capital | 10,371 | (b) | 5,339 |
| Total capital | 3,836 | (b) | 2,830 |
| Leverage capital | 6,665 | (a) | 1,918 |

(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 RWA, quarterly average assets or total leverage exposure, or a $100 million increase or decrease in common equity on the consolidated capital ratios at Sept. 30, 2015.

Sensitivity of consolidated capital ratios at Sept. 30, 2015

| | Increase or decrease of | | | |
|---|---|---|---|---|
| (basis points) | $100 million in common equity | | $1 billion in RWA, quarterly average assets, or total leverage exposure | |
| CET1: | | | | |
| Standardized Approach | 6 | bps | 7 | bps |
| Advanced Approach | 6 | | 6 | |
| Tier 1 capital: | | | | |
| Standardized Approach | 6 | | 8 | |
| Advanced Approach | 6 | | 7 | |
| Total capital: | | | | |
| Standardized Approach | 6 | | 8 | |
| Advanced Approach | 6 | | 7 | |
| 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 Sept. 30, 2015, we had $303 million of trust preferred securities outstanding, of which 25% currently qualify as Tier 1 capital and 75% as Tier 2 capital. Under the U.S. 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 U.S.

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 consolidated and largest bank subsidiary estimated fully phased-in Basel III SLR based on its interpretation of the U.S. 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 the SLR is effective, we expect to maintain an SLR of over 5%. The minimum SLR is 3% and there is a 2% buffer, in addition to the minimum, that is applicable to U.S. G-SIBs. The insured depository institution subsidiaries of the U.S. G-SIBs, including those of BNY Mellon, must maintain a 6% SLR to be considered “well capitalized.”

The following table presents the components of our estimated SLR using fully phased-in Basel III components of capital.

| Estimated fully phased-in SLR – Non-GAAP (dollars in millions) | Sept. 30, 2015 | June 30, 2015 | Dec. 31, 2014 |
|---|---|---|---|
| Total estimated fully phased-in Basel III CET1 – Non-GAAP | $16,077 | $15,931 | $15,931 |
| Additional Tier 1 capital | 2,528 | 2,545 | 1,550 |
| Total Tier 1 capital | $18,605 | $18,476 | $17,481 |
| | | | |
| Total leverage exposure: | | | |
| Quarterly average total assets | $373,453 | $378,279 | $385,232 |
| Less: Amounts deducted from Tier 1 capital | 19,532 | 19,779 | 19,947 |
| Total on-balance sheet assets, as adjusted | 353,921 | 358,500 | 365,285 |
| Off-balance sheet exposures: | | | |
| Potential future exposure for derivatives contracts (plus certain other items) | 8,358 | 9,222 | 11,376 |
| Repo-style transaction exposures included in SLR | 362 | 6,589 | 302 |
| Credit-equivalent amount of other off-balance sheet exposures (less SLR exclusions) | 27,482 | 27,251 | 21,850 |
| Total off-balance sheet exposures | 36,202 | 43,062 | 33,528 |
| Total leverage exposure | $390,123 | $401,562 | $398,813 |
| | | | |
| Estimated fully phased-in SLR – Non-GAAP | 4.8 %(a) | 4.6 % | 4.4 % |

(a) The estimated SLR on a fully phased-in basis (Non-GAAP) for our largest bank subsidiary, The Bank of New York Mellon, was 4.6% at Sept. 30, 2015. At Sept. 30, 2015, total Tier 1 capital was $14,882 million and total leverage exposure was $322,531 million for The Bank of New York Mellon.

Trading activities and risk management

Our trading activities are focused on acting as a market maker for our customers and facilitating customer trades in compliance with the Volcker Rule. 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 17 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) | 3Q15 Average | Minimum | Maximum | Sept. 30, 2015 |
|---|---|---|---|---|
| Interest rate | $5.0 | $4.0 | $5.9 | $5.6 |
| Foreign exchange | 0.9 | 0.6 | 1.9 | 1.3 |
| Equity | 0.9 | 0.6 | 1.5 | 0.8 |
| Diversification | (1.8) | N/M | N/M | (2.4) |
| Overall portfolio | 5.0 | 4.0 | 6.1 | 5.3 |

| VaR (a) | 2Q15 |
|---|---|

| (in millions) | Average | Minimum | Maximum | June 30, 2015 |
|---|---|---|---|---|
| Interest rate | $5.3 | $4.1 | $7.8 | $4.1 |
| Foreign exchange | 0.8 | 0.5 | 1.4 | 0.7 |
| Equity | 1.1 | 0.9 | 1.4 | 1.1 |
| Diversification | (1.8) | N/M | N/M | (1.5) |
| Overall portfolio | 5.4 | 4.1 | 8.1 | 4.4 |

| VaR (a) | 3Q14 | | | |
|---|---|---|---|---|
| (in millions) | Average | Minimum | Maximum | Sept. 30, 2014 |
| Interest rate | $5.7 | $4.1 | $6.8 | $5.4 |
| Foreign exchange | 0.9 | 0.4 | 1.5 | 0.7 |
| Equity | 1.4 | 0.8 | 2.3 | 1.0 |
| Diversification | (2.0) | N/M | N/M | (1.4) |
| Overall portfolio | 6.0 | 4.5 | 7.3 | 5.7 |

| VaR (a) | YTD15 | | |
|---|---|---|---|
| (in millions) | Average | Minimum | Maximum |
| Interest rate | $5.2 | $3.6 | $8.0 |
| Foreign exchange | 0.9 | 0.5 | 1.9 |
| Equity | 1.1 | 0.6 | 1.9 |
| Diversification | (1.9) | N/M | N/M |
| Overall portfolio | 5.3 | 3.9 | 8.5 |

| VaR (a) | YTD14 | | |
|---|---|---|---|
| (in millions) | Average | Minimum | Maximum |
| Interest rate | $7.3 | $4.1 | $13.4 |
| Foreign exchange | 1.0 | 0.4 | 2.7 |
| Equity | 1.8 | 0.8 | 4.0 |
| Diversification | (2.5) | N/M | N/M |
| Overall portfolio | 7.6 | 4.5 | 13.0 |

(a) VaR figures do not reflect the impact of the credit valuation adjustment ("CVA") guidance in Accounting Standards 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.

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 consists 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 third quarter of 2015, interest rate risk generated 73% of average gross VaR, foreign exchange risk generated 14% of average gross VaR and equity risk accounted for 13% of average gross

VaR. During the third 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 variances are driven by higher volatility. The sequential variances are driven by lower volatility.

Distribution of trading revenue (loss) (a)

| (dollar amounts in millions) | Quarter ended Sept. 30, 2015 | June 30, 2015 | March 31, 2015 | Dec. 31, 2014 | Sept. 30, 2014 |
|---|---|---|---|---|---|
| Revenue range: | Number of days | | | | |
| Less than $(2.5) | — | — | 1 | — | — |
| $(2.5) - $0 | 7 | 3 | 2 | 7 | 3 |
| $0 - $2.5 | 27 | 27 | 18 | 28 | 34 |

| | | | | | |
|---|---|---|---|---|---|
| $2.5 - $5.0 | 21 | 26 | 24 | 18 | 20 |
| More than $5.0 | 10 | 8 | 16 | 9 | 7 |

(a) Trading revenue (loss) includes realized and unrealized gains and losses primarily related to spot and forward 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 $7 billion at Sept. 30, 2015 and $10 billion at 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 $5 billion at Sept. 30, 2015 and $7 billion at 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 Sept. 30, 2015, our OTC derivative assets of $4.8 billion included a CVA deduction of $48 million. Our OTC derivative liabilities of $4.8 billion included a debit valuation adjustment (“DVA”) of $6 million related to our own credit spread. Net of hedges, the CVA increased $5 million and DVA was unchanged in the third quarter of 2015. The net impact of these adjustments decreased foreign exchange and other trading revenue by $5 million in the third quarter of 2015.

In the second quarter of 2015, net of hedges, the CVA and DVA were unchanged. Foreign exchange and other trading revenue was not impacted by the CVA and DVA in the second quarter of 2015.

In the third quarter of 2014, net of hedges, the CVA decreased $9 million and the DVA was unchanged. The net impact of these adjustments increased foreign exchange and other trading revenue by $9 million in the third 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 | | | | |
|---|---|---|---|---|---|
| | Sept. 30, 2015 | June 30, 2015 | March 31, 2015 | Dec. 31, 2014 | Sept. 30, 2014 |
| Rating: | | | | | |
| AAA to AA- | 46 % | 41 % | 37 % | 37 % | 37 % |
| A+ to A- | 38 | 42 | 47 | 46 | 45 |
| BBB+ to BBB- | 14 | 13 | 14 | 14 | 14 |
| Non-investment grade (BB+ and lower) | 2 | 4 | 2 | 3 | 4 |
| 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) | Sept. 30, 2015 | June 30, 2015 | March 31, 2015 | Dec. 31, 2014 | Sept. 30, 2014 |
|---|---|---|---|---|---|
| up 200 bps parallel rate ramp vs. baseline (a) | $275 | $224 | $210 | $363 | $457 |
| up 100 bps parallel rate ramp vs. baseline (a) | 290 | 245 | 262 | 326 | 365 |
| Long-term up 50 bps, short-term unchanged (b) | 20 | 28 | 14 | 28 | 37 |
| Long-term down 50 bps, short-term unchanged (b) | (81) | (73) | (69) | (54) | (44) |

(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.

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 variable interest entities (“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 18 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, required 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, gains on the sales of our equity investment in Wing Hang and our One Wall Street building; and expense measures which exclude M&I expenses, litigation charges, restructuring charges and amortization of intangible assets. Earnings per share, return on equity measures and operating margin measures, which exclude some or all of these items, are also presented. 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 gains or 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 revenue and 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.

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 | 3Q15 | | | 2Q15 | | | 3Q14 | |
|---|---|---|---|---|---|---|---|---|
| (in millions, except per common share amounts) | Net income | Diluted EPS | | Net income | Diluted EPS | | Net income | Diluted EPS |
| GAAP results | $820 | $0.74 | | $830 | $0.73 | | $1,070 | $0.93 |
| Less: Gain on the sale of our equity investment in Wing Hang | N/A | N/A | | N/A | N/A | | 315 | 0.27 |
| Gain on the sale of our One Wall Street building | N/A | N/A | | N/A | N/A | | 204 | 0.18 |
| Add: Litigation and restructuring charges | 8 | 0.01 | | 38 | 0.03 | | 183 | 0.16 |
| Non-GAAP results | $828 | $0.74 | (a) | $868 | $0.77 | (a) | $734 | $0.64 |

(a) Does not foot due to rounding.
N/A - Not applicable.

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) | 3Q15 | 2Q15 | 3Q14 | YTD15 | YTD14 |
|---|---|---|---|---|---|
| Income before income taxes – GAAP | $1,109 | $1,165 | $1,662 | $3,364 | $3,399 |
| Less: Net (loss) income attributable to noncontrolling interests of consolidated investment management funds | (5) | 37 | 23 | 63 | 60 |
| Gain on the sale of our equity investment in Wing Hang | — | — | 490 | — | 490 |
| Gain on the sale of our One Wall Street building | — | — | 346 | — | 346 |
| Add: Amortization of intangible assets | 66 | 65 | 75 | 197 | 225 |
| M&I, litigation and restructuring charges | 11 | 59 | 220 | 67 | 330 |
| Charge related to investment management funds, net of incentives | — | — | — | — | 104 |
| Income before income taxes, as adjusted – Non-GAAP (a) | $1,191 | $1,252 | $1,098 | $3,565 | $3,162 |
| | | | | | |
| Fee and other revenue – GAAP | $3,053 | $3,067 | $3,851 | $9,132 | $9,714 |
| (Loss) income from consolidated investment management funds – GAAP | (22) | 40 | 39 | 70 | 121 |
| Net interest revenue – GAAP | 759 | 779 | 721 | 2,266 | 2,168 |
| Total revenue – GAAP | 3,790 | 3,886 | 4,611 | 11,468 | 12,003 |
| Less: Net (loss) income attributable to noncontrolling interests of consolidated investment management funds | (5) | 37 | 23 | 63 | 60 |
| Gain on the sale of our equity investment in Wing Hang | — | — | 490 | — | 490 |
| Gain on the sale of our One Wall Street building | — | — | 346 | — | 346 |
| Total revenue, as adjusted – Non-GAAP (a) | $3,795 | $3,849 | $3,752 | $11,405 | $11,107 |
| | | | | | |
| Pre-tax operating margin (b) | 29% (c) | 30% (c) | 36% | 29% (c) | 28% |
| Pre-tax operating margin – Non-GAAP (a)(b) | 31% (c) | 33% (c) | 29% | 31% (c) | 28% |

(a) Non-GAAP excludes net (loss) income attributable to noncontrolling interests of consolidated investment management funds, the gains on the sales of our equity investment in Wing Hang and our One Wall Street building, amortization of intangible assets, M&I, litigation and restructuring charges, and the charge related to investment management funds, net of incentives, if applicable.

(b) Income before taxes divided by total revenue.

(c) 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 tax expense. If reported on a tax-equivalent basis these investments would increase revenue and income before taxes by $53 million for the third quarter of 2015, $52 million for the second quarter of 2015 and $169 million for the first nine months of 2015 and would increase our pre-tax operating margin by approximately 1.0%, 0.9% and 1.0%, respectively.

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) | 3Q15 | 2Q15 | 3Q14 | YTD15 | YTD14 |
|---|---|---|---|---|---|
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation – GAAP | $820 | $830 | $1,070 | $2,416 | $2,285 |
| Add: Amortization of intangible assets, net of tax | 43 | 44 | 49 | 130 | 147 |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation excluding amortization of intangible assets – Non-GAAP | 863 | 874 | 1,119 | 2,546 | 2,432 |
| Less: Gain on the sale of our equity investment in Wing Hang | — | — | 315 | — | 315 |
| Gain on the sale of our One Wall Street building | — | — | 204 | — | 204 |
| Add: M&I, litigation and restructuring charges | 8 | 38 | 183 | 44 | 252 |
| Charge related to investment management funds, net of incentives | — | — | — | — | 81 |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation, as adjusted – Non-GAAP (a) | $871 | $912 | $783 | $2,590 | $2,246 |
| | | | | | |
| Average common shareholders' equity | $35,588 | $35,516 | $36,751 | $35,530 | $36,537 |
| Less: Average goodwill | 17,742 | 17,752 | 18,109 | 17,750 | 18,110 |
| Average intangible assets | 3,962 | 4,031 | 4,274 | 4,027 | 4,350 |
| Add: Deferred tax liability – tax deductible goodwill (b) | 1,379 | 1,351 | 1,317 | 1,379 | 1,317 |
| Deferred tax liability – intangible assets (b) | 1,164 | 1,179 | 1,230 | 1,164 | 1,230 |
| Average tangible common shareholders' equity – Non-GAAP | $16,427 | $16,263 | $16,915 | $16,296 | $16,624 |
| | | | | | |
| Return on common equity – GAAP (c) | 9.1 % | 9.4 % | 11.6 % | 9.1 % | 8.4 % |
| Return on common equity – Non-GAAP (a)(c) | 9.7 % | 10.3 % | 8.5 % | 9.7 % | 8.2 % |
| | | | | | |
| Return on tangible common equity – Non-GAAP (a)(c) | 20.8 % | 21.5 % | 26.2 % | 20.9 % | 19.6 % |
| Return on tangible common equity – Non-GAAP adjusted (a)(c) | 21.0 % | 22.5 % | 18.4 % | 21.2 % | 18.1 % |

(a) Non-GAAP excludes amortization of intangible assets, net of tax, the gains on the sales of our equity investment in Wing Hang and our One Wall Street building, M&I, litigation and restructuring charges and the charge 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.

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) | Sept. 30, 2015 | June 30, 2015 | March 31, 2015 | Dec. 31, 2014 | Sept. 30, 2014 |
|---|---|---|---|---|---|
| BNY Mellon shareholders’ equity at period end – GAAP | $38,170 | $38,270 | $37,328 | $37,441 | $38,451 |
| Less: Preferred stock | 2,552 | 2,552 | 1,562 | 1,562 | 1,562 |
| BNY Mellon common shareholders’ equity at period end – GAAP | 35,618 | 35,718 | 35,766 | 35,879 | 36,889 |
| Less: Goodwill | 17,679 | 17,807 | 17,663 | 17,869 | 17,992 |
| Intangible assets | 3,914 | 4,000 | 4,047 | 4,127 | 4,215 |
| Add: Deferred tax liability – tax deductible goodwill (a) | 1,379 | 1,351 | 1,362 | 1,340 | 1,317 |
| Deferred tax liability – intangible assets (a) | 1,164 | 1,179 | 1,200 | 1,216 | 1,230 |
| BNY Mellon tangible common shareholders’ equity at period end – Non-GAAP | $16,568 | $16,441 | $16,618 | $16,439 | $17,229 |
| | | | | | |
| Total assets at period end – GAAP | $377,371 | $395,254 | $392,337 | $385,303 | $386,296 |
| Less: Assets of consolidated investment management funds | 2,297 | 2,231 | 1,681 | 9,282 | 9,562 |
| Subtotal assets of operations – Non-GAAP | 375,074 | 393,023 | 390,656 | 376,021 | 376,734 |
| Less: Goodwill | 17,679 | 17,807 | 17,663 | 17,869 | 17,992 |
| Intangible assets | 3,914 | 4,000 | 4,047 | 4,127 | 4,215 |
| Cash on deposit with the Federal Reserve and other central banks (b) | 86,426 | 106,628 | 93,044 | 99,901 | 90,978 |
| Tangible total assets of operations at period end – Non-GAAP | $267,055 | $264,588 | $275,902 | $254,124 | $263,549 |
| | | | | | |
| BNY Mellon shareholders’ equity to total assets ratio – GAAP | 10.1 % | 9.7 % | 9.5 % | 9.7 % | 10.0 % |
| BNY Mellon common shareholders’ equity to total assets ratio – GAAP | 9.4 % | 9.0 % | 9.1 % | 9.3 % | 9.5 % |
| BNY Mellon tangible common shareholders’ equity to tangible assets of operations ratio – Non-GAAP | 6.2 % | 6.2 % | 6.0 % | 6.5 % | 6.5 % |
| | | | | | |
| Period-end common shares outstanding (in thousands) | 1,092,953 | 1,106,518 | 1,121,512 | 1,118,228 | 1,125,710 |
| | | | | | |
| Book value per common share – GAAP | $32.59 | $32.28 | $31.89 | $32.09 | $32.77 |
| Tangible book value per common share – Non-GAAP | $15.16 | $14.86 | $14.82 | $14.70 | $15.30 |

(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) | 3Q15 | 2Q15 | 3Q14 | YTD15 | YTD14 |
|---|---|---|---|---|---|
| (Loss) income from consolidated investment management funds | $(22) | $40 | $39 | $70 | $121 |
| Less: Net (loss) income attributable to noncontrolling interests of consolidated investment management funds | (5) | 37 | 23 | 63 | 60 |

| | | | | | |
|---|---|---|---|---|---|
| (Loss) income from consolidated investment management funds, net of noncontrolling interests | $(17 | )$3 | $16 | $7 | $61 |

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 | | | 3Q15 vs. |
|---|---|---|---|
| (dollars in millions) | 3Q15 | 3Q14 | 3Q14 |
| Investment management and performance fees - GAAP | $829 | $881 | (6 )% |
| Impact of changes in foreign currency exchange rates | — | (39 ) | |
| Investment management and performance fees, as adjusted - Non-GAAP | $829 | $842 | (2 )% |

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

| (Loss) income from consolidated investment management funds, net of noncontrolling interests - Investment Management business | | | | | |
|---|---|---|---|---|---|
| (in millions) | 3Q15 | 2Q15 | 3Q14 | YTD15 | YTD14 |
| Investment management fees | $3 | $4 | $15 | $8 | $51 |
| Other (Investment (loss) income) | (20) | (1) | 1 | (1) | 10 |
| (Loss) income from consolidated investment management funds, net of noncontrolling interests | $(17) | $3 | $16 | $7 | $61 |

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 | | | 3Q15 vs. |
|---|---|---|---|
| (dollars in millions) | 3Q15 | 3Q14 | 3Q14 |
| Investment management fees - GAAP | $804 | $843 | (5)% |
| Impact of changes in foreign currency exchange rates | — | (37) | |
| Investment management fees, as adjusted - Non-GAAP | $804 | $806 | — % |

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

| Pre-tax operating margin - Investment Management business | | | | | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| (dollars in millions) | 3Q15 | 2Q15 | 1Q15 | 4Q14 | 3Q14 | 2015 | 2014 |
| Income before income taxes – GAAP | $237 | $263 | $263 | $236 | $245 | $763 | $661 |
| Add: Amortization of intangible assets | 24 | 25 | 24 | 29 | 29 | 73 | 89 |
| Money market fee waivers | 28 | 29 | 33 | 33 | 30 | 90 | 92 |
| Charge related to investment management funds, net of incentives | — | — | — | — | — | — | 104 |
| Income before income taxes excluding amortization of intangible assets, money market fee waivers and the charge related to investment management funds, net of incentives – Non-GAAP | $289 | $317 | $320 | $298 | $304 | $926 | $946 |
| | | | | | | | |
| Total revenue – GAAP | $929 | $991 | $997 | $981 | $989 | $2,917 | $2,965 |
| Less: Distribution and servicing expense | 94 | 95 | 97 | 101 | 105 | 286 | 322 |
| Money market fee waivers benefiting distribution and servicing expense | 35 | 37 | 38 | 37 | 37 | 110 | 113 |
| Add: Money market fee waivers impacting total revenue | 63 | 66 | 71 | 70 | 67 | 200 | 205 |
| Total revenue net of distribution and servicing expense and excluding money market fee waivers – Non-GAAP | $863 | $925 | $933 | $913 | $914 | $2,721 | $2,735 |
| | | | | | | | |
| Pre-tax operating margin (a) | 26 % | 27 % | 26 % | 24 % | 25 % | 26 % | 22 % |
| | 34 % | 34 % | 34 % | 33 % | 33 % | 34 % | 35 % |

Pre-tax operating margin, excluding amortization of intangible assets, money market fee waivers, the charge related to investment management funds, net of incentives and net of distribution and servicing expense – Non-GAAP (a)

(a) Income before taxes divided by total revenue.

Recent accounting and regulatory developments

Recently Issued Accounting Standards

ASU - 2014-09 - Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("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 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 - Improvements to Employee Share-Based Payment Accounting

In June 2015, the FASB issued a proposed ASU, "Improvements to Employee Share-Based Payment Accounting." This proposed ASU would simplify several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Comments were due on this proposed ASU by Aug. 14, 2015. The effective date and whether to permit early adoption will be determined after considering stakeholder feedback.

Proposed ASU - Simplifying the Equity Method of Accounting

In June 2015, the FASB issued a proposed ASU, "Simplifying the Equity Method of Accounting." This proposed ASU would eliminate the requirement to account for the difference between the cost of an investment and the investor's proportionate share of the net assets of the investee (the basis difference), and also eliminates the requirement to retrospectively

apply the equity method when an increase in ownership interest in the investee prompts a change from the cost method to the equity method. Comments were due on this proposed ASU by Aug. 4, 2015. The effective date and whether to permit early adoption will be determined after considering stakeholder feedback.

Proposed ASU - Leases

In May 2013, the FASB and the International Accounting Standards Board ("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 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. A final standard is estimated to be issued in the fourth quarter of 2015. 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. A final standard is estimated to be issued in the fourth quarter of 2015. 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 for 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. The FASB is currently re-deliberating based on the comments received and is expected to issue a final standard in the fourth quarter

of 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.

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 and "Recent regulatory developments" in our Quarterly Report on Form 10-Q for the quarters ended

March 31, 2015 and June 30, 2015.

Total Loss-Absorbing Capacity Proposal

On Oct. 30, 2015, the Federal Reserve voted to issue a notice of proposed rulemaking which establishes external total loss-absorbing capacity ("TLAC") and related requirements for U.S. G-SIBs at the top-tier holding company level. Except as stated below, the proposed requirements would be effective on Jan. 1, 2019. Under the proposal, U.S. G-SIBs would be required to maintain a minimum external TLAC of the greater of 16% of RWA and 9.5% of the

denominator of the SLR in 2019, increasing to the greater of 18% of RWA and 9.5% of the denominator of the SLR in 2022. The proposal would apply an additional external TLAC buffer consisting of the sum of 2.5% of RWA, the U.S. G-SIB's G-SIB surcharge calculated under method 1, and any applicable countercyclical buffer. The external TLAC requirement would be met using a combination of Tier 1 capital and eligible external long-term debt ("ELTD"), and the external TLAC buffer requirement would be met using common equity tier 1 capital. Separately, ELTD would be required to be maintained in an amount equal to the greater of 6% of RWA plus the G-SIB surcharge (calculated using the greater of method 1 and method 2), and 4.5% of the denominator of the SLR. In order to qualify as ELTD, debt instruments must be unsecured, not be structured instruments, governed by U.S. law and have a remaining maturity of more than one year. In addition, the proposal currently requires that ELTD generally not have acceleration rights, other than in the event of non-payment or the bankruptcy or insolvency of the issuer. Instruments that have a maturity of less than two years but more than one year would be subject to a 50% haircut. Further, in order to enhance resolvability, the top-tier holding companies of U.S. G-SIBs would not be permitted to issue certain guarantees of subsidiary liabilities, incur certain liabilities guaranteed by subsidiaries, issue short term debt to third parties, or enter into derivatives and certain other financial contracts with external counterparties. Finally, under the proposal, certain liabilities of the top-tier holding companies of U.S. G-SIBs that are junior to or pari passu with ELTD would be capped at 5% of the value of the U.S. G-SIB's eligible external TLAC instruments. We are evaluating the proposed requirements to determine the implications, if any, on our existing debt instruments. This proposal is distinct from, but related to, the November 2014 consultative document issued by the Financial Stability Board concerning total loss-absorbing capacity requirements. See "Supervision and Regulation - Total Loss-Absorbing Capacity Proposal" in our 2014 Annual Report.

Uncleared Swap Margin Requirements

During October 2015, the U.S. prudential regulators adopted joint final rules establishing minimum margin requirements for the uncleared swap transactions engaged in by those dealers subject to their jurisdiction (each, a "Covered Swap Entity").

The effective date of these new rules is April 2016, with compliance requirements set to begin in September 2016. From this latter point forward, variation margin requirements will be phased in over a six month period while initial margin requirements will be phased in over a four year period. In each instance, the higher a Covered Swap Entity's derivatives exposure, the earlier in the phase-in period it will be required to comply. In addition, the new rules will require the initial margin posted to or by a Covered Swap Entity be segregated at a third-party custodian. BNY Mellon anticipates that its existing role as a third-party custodian for collateral posted in connection with uncleared swap transactions will likely increase among Covered Swap Entities and their counterparties as these standards are phased-in. Furthermore, as both a Covered Swap Entity and a potential third party custodian for other Covered Swap Entities, BNY Mellon is currently in the process of preparing an implementation plan and assessing the impact of these new rules on bank operations.

FDIC Proposed Assessment Increase

On Oct. 22, 2015, the FDIC issued a proposed rule that would implement an increase in the reserve ratio of the FDIC's Deposit Insurance Fund ("DIF") from 1.15% to 1.35% of total insured deposits. The FDIC would increase the reserve ratio by imposing a surcharge on the quarterly assessments of insured depository institutions with $10 billion or more in total consolidated assets, including The Bank of New York Mellon and BNY Mellon, N.A. The annual 4.5 basis point surcharge would take effect in the first calendar quarter after the reserve ratio reaches 1.15% or the quarter in which the final rule becomes effective (whichever occurs later) and continue through the quarter in which the reserve ratio reaches or exceeds 1.35%. FDIC staff estimate that the reserve ratio will reach 1.15% in the first quarter of 2016 or earlier, and project that the proposed surcharges are sufficient to raise the reserve ratio to 1.35 percent before the end of 2018. If the ratio does not reach 1.35% by Dec. 31, 2018, the proposed rule would impose a further "shortfall assessment" on institutions with $10 billion or more in total consolidated assets. Based on Sept. 30, 2015 assets, we

estimate the annual FDIC expense would increase by approximately $10 million.

G-SIB Framework

On July 20, 2015, the Federal Reserve published final rules to implement the G-SIB surcharge (the “Final U.S. G-SIB Rule”). The Final U.S. G-SIB Rule is largely consistent with the Proposed U.S. G-SIB Rule, although it did change aspects of the Proposed U.S. G-SIB Rule. These changes included lowering the maximum weights for wholesale deposits from non-financial clients from 50% to 25%. In addition, the Final U.S. G-SIB Rule reduced the maximum weight for other types of unsecured short-term wholesale funding from 100% to 75%. The Final G-SIB Rule does not add the G-SIB surcharge to post-stress minimum risk-based capital ratios for purposes of DFAST or CCAR.

The Final U.S. G-SIB Rule results in higher surcharges for certain U.S. G-SIBs than would result under the Basel G-SIB framework. BNY Mellon could be subject to a surcharge that is greater than the prior estimate of 1.0% under the Basel G-SIB framework and the estimate of 1.0% under the Final U.S. G-SIB Rule release.

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 the Parent, 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 and our domestic bank subsidiaries, have been required to meet an LCR of 80%. 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%. In addition, the Final LCR Rule provided a transition period for compliance with the daily LCR calculation requirement. During this transition period, monthly calculation of the LCR was permitted. This transition period ended on June 30, 2015 and, beginning July 1, 2015, we have been required to calculate the LCR on a daily basis.

As of Sept. 30, 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 37.

Volcker Rule

The Dodd-Frank Act imposed broad prohibitions and restrictions on proprietary trading and investments in or sponsorship of hedge funds and private equity funds by banking organizations and their affiliates, commonly referred to as the “Volcker Rule.”

On Dec. 10, 2013, final rules to implement the Volcker Rule were adopted. These regulations generally provided banks, including BNY Mellon, and affiliates, with a period for conforming their covered activities and investments with the final Volcker Rule regulations. This conformance period expired on July 21, 2015. Investments in and relationships with covered funds and foreign funds that were in place prior to Dec. 31, 2013 remain subject to a conformance period that runs until July 21, 2016. Permissible investments in ownership interests in Volcker Rule non-legacy covered funds have been deducted from Tier 1 capital at Sept. 30, 2015. The Federal Reserve has stated that it intends to act in 2015 to grant an additional one-year extension of this conformance period until July 21, 2017.

Recovery and Resolution Planning

In January 2014, the Federal Reserve issued heightened supervisory expectations for recovery and resolution preparedness. The expectations apply to eight domestic bank holding companies designated by the Federal Reserve,

including BNY Mellon, and cover the following five topics: collateral management; payment, clearing and settlement activities; liquidity and funding; management information systems; and shared and outsourced services.

BNY Mellon and The Bank of New York Mellon each file annual complementary resolution plans providing for their rapid and orderly resolution in the event of material financial distress or failure. We have been submitting our resolution plans in conformity with both rules since 2012. BNY Mellon and The Bank of

New York Mellon filed their 2015 Resolution Plans with the Federal Reserve and the FDIC on July 1, 2015. The public portions of our resolution plan are available on the FDIC's website.

EU Capital Markets Union Action Plan

On Sept. 30, 2015, the European Commission published its plan to facilitate capital markets activity and to ease access to capital for businesses across the EU, which it plans to implement by 2019. The European Commission's overall plan is comprised of various components, including legislative proposals, plans for future legislative proposals, public consultations, and other elements. The European Commission's goals include removing barriers between nationally segmented capital markets, which may result in increased capital markets activity in EMEA. Accordingly, if implemented in its current form, the plan may have an impact on BNY Mellon's business, which is centered on providing investors with services throughout the investment lifecycle.

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.

Item 1. Financial Statements

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

Consolidated Income Statement (unaudited)

| (in millions) | Quarter ended Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 | Year-to-date Sept. 30, 2015 | Sept. 30, 2014 |
|---|---|---|---|---|---|
| Fee and other revenue | | | | | |
| Investment services fees: | | | | | |
| Asset servicing | $1,057 | $1,060 | $1,025 | $3,155 | $3,056 |
| Clearing services | 345 | 347 | 337 | 1,036 | 988 |
| Issuer services | 313 | 234 | 315 | 779 | 775 |
| Treasury services | 137 | 144 | 142 | 418 | 419 |
| Total investment services fees | 1,852 | 1,785 | 1,819 | 5,388 | 5,238 |
| Investment management and performance fees | 829 | 878 | 881 | 2,574 | 2,607 |
| Foreign exchange and other trading revenue | 179 | 187 | 153 | 595 | 419 |
| Financing-related fees | 71 | 58 | 44 | 169 | 126 |
| Distribution and servicing | 41 | 39 | 44 | 121 | 130 |
| Investment and other income | 59 | 104 | 890 | 223 | 1,134 |
| Total fee revenue | 3,031 | 3,051 | 3,831 | 9,070 | 9,654 |
| Net securities gains — including other-than-temporary impairment | 22 | 17 | 21 | 65 | 62 |
| Noncredit-related portion of other-than-temporary impairment (recognized in other comprehensive income) | — | 1 | 1 | 3 | 2 |
| Net securities gains | 22 | 16 | 20 | 62 | 60 |
| Total fee and other revenue | 3,053 | 3,067 | 3,851 | 9,132 | 9,714 |
| Operations of consolidated investment management funds | | | | | |
| Investment (loss) income | (6) | 46 | 123 | 96 | 402 |
| Interest of investment management fund note holders | 16 | 6 | 84 | 26 | 281 |
| (Loss) income from consolidated investment management funds | (22) | 40 | 39 | 70 | 121 |
| Net interest revenue | | | | | |
| Interest revenue | 838 | 847 | 809 | 2,492 | 2,432 |
| Interest expense | 79 | 68 | 88 | 226 | 264 |
| Net interest revenue | 759 | 779 | 721 | 2,266 | 2,168 |
| Provision for credit losses | 1 | (6) | (19) | (3) | (49) |
| Net interest revenue after provision for credit losses | 758 | 785 | 740 | 2,269 | 2,217 |
| Noninterest expense | | | | | |
| Staff | 1,437 | 1,434 | 1,477 | 4,356 | 4,427 |
| Professional, legal and other purchased services | 301 | 299 | 323 | 902 | 949 |
| Software | 154 | 158 | 154 | 470 | 460 |
| Net occupancy | 152 | 149 | 154 | 452 | 460 |
| Distribution and servicing | 95 | 96 | 107 | 289 | 326 |
| Sub-custodian | 65 | 75 | 67 | 210 | 216 |
| Furniture and equipment | 72 | 70 | 80 | 212 | 247 |
| Business development | 59 | 72 | 61 | 192 | 193 |
| Other | 268 | 250 | 250 | 760 | 820 |

| | | | | | |
|---|---|---|---|---|---|
| Amortization of intangible assets | 66 | 65 | 75 | 197 | 225 |
| Merger and integration, litigation and restructuring charges | 11 | 59 | 220 | 67 | 330 |
| Total noninterest expense | 2,680 | 2,727 | 2,968 | 8,107 | 8,653 |
| Income | | | | | |
| Income before income taxes | 1,109 | 1,165 | 1,662 | 3,364 | 3,399 |
| Provision for income taxes | 282 | 276 | 556 | 838 | 1,005 |
| Net income | 827 | 889 | 1,106 | 2,526 | 2,394 |
| Net loss (income) attributable to noncontrolling interests (includes $5, $(37), $(23), $(63) and $(60) related to consolidated investment management funds, respectively) | 6 | (36) | (23) | (61) | (60) |
| Net income applicable to shareholders of The Bank of New York Mellon Corporation | 833 | 853 | 1,083 | 2,465 | 2,334 |
| Preferred stock dividends | (13) | (23) | (13) | (49) | (49) |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation | $820 | $830 | $1,070 | $2,416 | $2,285 |

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 | | | Year-to-date | |
|---|---|---|---|---|---|
| | Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 | Sept. 30, 2015 | Sept. 30, 2014 |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation | $820 | $830 | $1,070 | $2,416 | $2,285 |
| Less: Earnings allocated to participating securities | 6 | 9 | 20 | 34 | 43 |
| 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 | $814 | $821 | $1,050 | $2,382 | $2,242 |

| Average common shares and equivalents outstanding of The Bank of New York Mellon Corporation (in thousands) | Quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| | Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 | Sept. 30, 2015 | Sept. 30, 2014 |
| Basic | 1,098,003 | 1,113,790 | 1,126,946 | 1,110,056 | 1,133,006 |
| Common stock equivalents | 16,476 | 16,718 | 20,807 | 17,371 | 19,547 |
| Less: Participating securities | (8,834) | (8,373) | (12,882) | (9,452) | (12,835) |
| Diluted | 1,105,645 | 1,122,135 | 1,134,871 | 1,117,975 | 1,139,718 |
| Anti-dilutive securities (a) | 28,119 | 26,061 | 40,360 | 29,378 | 45,368 |

| Earnings per share applicable to the common shareholders of The Bank of New York Mellon Corporation (b) (in dollars) | Quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| | Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 | Sept. 30, 2015 | Sept. 30, 2014 |
| Basic | $0.74 | $0.74 | $0.93 | $2.15 | $1.98 |
| Diluted | $0.74 | $0.73 | $0.93 | $2.13 | $1.97 |

(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.

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 Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 | Year-to-date Sept. 30, 2015 | Sept. 30, 2014 |
|---|---|---|---|---|---|
| Net income | $827 | $889 | $1,106 | $2,526 | $2,394 |
| Other comprehensive income (loss), net of tax: | | | | | |
| Foreign currency translation adjustments | (163) | 329 | (589) | (435) | (475) |
| Unrealized gain (loss) on assets available-for-sale: | | | | | |
| Unrealized gain (loss) arising during the period | 7 | (358) | 4 | (217) | 376 |
| Reclassification adjustment | (14) | (10) | (13) | (39) | (40) |
| Total unrealized gain (loss) on assets available-for-sale | (7) | (368) | (9) | (256) | 336 |
| Defined benefit plans: | | | | | |
| Net gain (loss) arising during the period | 2 | — | — | (107) | — |
| Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost | 21 | 21 | 19 | 47 | 55 |
| Total defined benefit plans | 23 | 21 | 19 | (60) | 55 |
| Net unrealized gain (loss) on cash flow hedges | — | 9 | (12) | 8 | (13) |
| Total other comprehensive (loss), net of tax (a) | (147) | (9) | (591) | (743) | (97) |
| Net loss (income) attributable to noncontrolling interests | 6 | (36) | (23) | (61) | (60) |
| Other comprehensive loss (income) attributable to noncontrolling interests | 17 | (34) | 77 | 22 | 73 |
| Net comprehensive income | $703 | $810 | $569 | $1,744 | $2,310 |

(a) Other comprehensive income (loss) attributable to The Bank of New York Mellon Corporation shareholders was $(130) million for the quarter ended Sept. 30, 2015, $(43) million for the quarter ended June 30, 2015, $(514) million for the quarter ended Sept. 30, 2014, $(721) million for the nine months ended Sept. 30, 2015 and $(24) million for the nine months ended Sept. 30, 2014.

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Balance Sheet (unaudited)

| (dollars in millions, except per share amounts) | Sept. 30, 2015 | Dec. 31, 2014 |
|---|---|---|
| Assets | | |
| Cash and due from: | | |
| Banks | $8,234 | $6,970 |
| Interest-bearing deposits with the Federal Reserve and other central banks | 82,426 | 96,682 |
| Interest-bearing deposits with banks | 20,002 | 19,495 |
| Federal funds sold and securities purchased under resale agreements | 28,901 | 20,302 |
| Securities: | | |
| Held-to-maturity (fair value of $43,758 and $21,127) | 43,423 | 20,933 |
| Available-for-sale | 76,682 | 98,330 |
| Total securities | 120,105 | 119,263 |
| Trading assets | 6,645 | 9,881 |
| Loans (includes $338 and $21, at fair value) | 63,309 | 59,132 |
| Allowance for loan losses | (181) | (191) |
| Net loans | 63,128 | 58,941 |
| Premises and equipment | 1,361 | 1,394 |
| Accrued interest receivable | 530 | 607 |
| Goodwill | 17,679 | 17,869 |
| Intangible assets | 3,914 | 4,127 |
| Other assets (includes $1,200 and $1,916, at fair value) | 22,149 | 20,490 |
| Subtotal assets of operations | 375,074 | 376,021 |
| Assets of consolidated investment management funds, at fair value: | | |
| Trading assets | 2,087 | 8,678 |
| Other assets | 210 | 604 |
| Subtotal assets of consolidated investment management funds, at fair value | 2,297 | 9,282 |
| Total assets | $377,371 | $385,303 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing (principally U.S. offices) | $101,111 | $104,240 |
| Interest-bearing deposits in U.S. offices | 54,073 | 53,236 |
| Interest-bearing deposits in Non-U.S. offices | 111,584 | 108,393 |
| Total deposits | 266,768 | 265,869 |
| Federal funds purchased and securities sold under repurchase agreements | 8,824 | 11,469 |
| Trading liabilities | 4,756 | 7,434 |
| Payables to customers and broker-dealers | 22,236 | 21,181 |
| Commercial paper | — | — |
| Other borrowed funds | 648 | 786 |
| Accrued taxes and other expenses | 6,457 | 6,903 |
| Other liabilities (including allowance for lending-related commitments of $99 and $89, also includes $518 and $451, at fair value) | 5,890 | 5,025 |
| Long-term debt (includes $362 and $347, at fair value) | 21,430 | 20,264 |
| Subtotal liabilities of operations | 337,009 | 338,931 |
| Liabilities of consolidated investment management funds, at fair value: | | |
| Trading liabilities | 1,072 | 7,660 |
| Other liabilities | 91 | 9 |
| Subtotal liabilities of consolidated investment management funds, at fair value | 1,163 | 7,669 |
| Total liabilities | 338,172 | 346,600 |

| | | |
|---|---|---|
| Temporary equity | | |
| Redeemable noncontrolling interests | 247 | 229 |
| Permanent equity | | |
| Preferred stock – par value $0.01 per share; authorized 100,000,000 shares; issued 25,826 and 15,826 shares | 2,552 | 1,562 |
| Common stock – par value $0.01 per share; authorized 3,500,000,000 shares; issued 1,310,436,554 and 1,290,222,821 shares | 13 | 13 |
| Additional paid-in capital | 25,168 | 24,626 |
| Retained earnings | 19,525 | 17,683 |
| Accumulated other comprehensive loss, net of tax | (2,355) | (1,634) |
| Less: Treasury stock of 217,483,962 and 171,995,262 common shares, at cost | (6,733) | (4,809) |
| Total The Bank of New York Mellon Corporation shareholders’ equity | 38,170 | 37,441 |
| Nonredeemable noncontrolling interests of consolidated investment management funds | 782 | 1,033 |
| Total permanent equity | 38,952 | 38,474 |
| Total liabilities, temporary equity and permanent equity | $377,371 | $385,303 |

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statement of Cash Flows (unaudited)

| | Nine months ended Sept. 30, | |
|---|---|---|
| (in millions) | 2015 | 2014 |
| Operating activities | | |
| Net income | $2,526 | $2,394 |
| Net (income) attributable to noncontrolling interests | (61) | (60) |
| Net income applicable to shareholders of The Bank of New York Mellon Corporation | 2,465 | 2,334 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | (3) | (49) |
| Pension plan contributions | (41) | (37) |
| Depreciation and amortization | 1,084 | 976 |
| Deferred tax (benefit) | (179) | (510) |
| Net securities (gains) and venture capital (income) | (63) | (65) |
| Change in trading activities | 511 | 1,154 |
| Change in accruals and other, net | 211 | (505) |
| Net cash provided by operating activities | 3,985 | 3,298 |
| Investing activities | | |
| Change in interest-bearing deposits with banks | (522) | 4,950 |
| Change in interest-bearing deposits with the Federal Reserve and other central banks | 14,256 | 12,042 |
| Purchases of securities held-to-maturity | (14,545) | (2,132) |
| Paydowns of securities held-to-maturity | 2,648 | 1,399 |
| Maturities of securities held-to-maturity | 961 | 99 |
| Purchases of securities available-for-sale | (26,795) | (51,428) |
| Sales of securities available-for-sale | 16,085 | 25,253 |
| Paydowns of securities available-for-sale | 6,712 | 5,424 |
| Maturities of securities available-for-sale | 12,201 | 4,417 |
| Net change in loans | (4,237) | (6,060) |
| Sales of loans and other real estate | 316 | 259 |
| Change in federal funds sold and securities purchased under resale agreements | (8,599) | (8,214) |
| Change in seed capital investments | 367 | (240) |
| Purchases of premises and equipment/capitalized software | (427) | (595) |
| Proceeds from the sale of premises and equipment | 16 | 585 |
| Acquisitions, net of cash | (9) | (25) |
| Dispositions, net of cash | 17 | 64 |
| Other, net | 1,307 | 3,543 |
| Net cash (used for) investing activities | (248) | (10,659) |
| Financing activities | | |
| Change in deposits | (505) | 2,442 |
| Change in federal funds purchased and securities sold under repurchase agreements | (2,645) | 39 |
| Change in payables to customers and broker-dealers | 1,055 | 4,448 |
| Change in other borrowed funds | (217) | 275 |
| Change in commercial paper | — | (96) |
| Net proceeds from the issuance of long-term debt | 4,190 | 4,686 |
| Repayments of long-term debt | (3,259) | (2,921) |
| Proceeds from the exercise of stock options | 263 | 276 |
| Issuance of common stock | 20 | 20 |
| Issuance of preferred stock | 990 | — |
| Treasury stock acquired | (1,924) | (1,237) |

| | | |
|---|---|---|
| Common cash dividends paid | (574) | (566) |
| Preferred cash dividends paid | (49) | (49) |
| Other, net | 140 | 94 |
| Net cash (used for) provided by financing activities | (2,515) | 7,411 |
| Effect of exchange rate changes on cash | 42 | (100) |
| Change in cash and due from banks | | |
| Change in cash and due from banks | 1,264 | (50) |
| Cash and due from banks at beginning of period | 6,970 | 6,460 |
| Cash and due from banks at end of period | $8,234 | $6,410 |
| Supplemental disclosures | | |
| Interest paid | $285 | $291 |
| Income taxes paid | 746 | 514 |
| Income taxes refunded | 893 | 142 |

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statement of Changes in Equity (unaudited)

| | The Bank of New York Mellon Corporation shareholders | | | | | | Non-redeemable noncontrolling interests of consolidated investment management funds | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in millions, except per share amounts) | Preferred stock | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive (loss), net of tax | Treasury stock | | Total permanent equity | | Redeemable non-controlling interests/ temporary equity |
| Balance at Dec. 31, 2014 | $1,562 | $13 | $24,626 | $17,683 | $(1,634) | $(4,809) | $1,033 | $38,474 | (a) | $229 |
| Adjustment for the cumulative effect of applying ASU 2015-02 for the consolidation of a legal entity | — | — | — | — | — | — | 602 | 602 | | — |
| Adjustment for the cumulative effect of applying ASU 2015-02 for the deconsolidation of a legal entity | — | — | — | — | — | — | (866) | (866) | | — |
| Adjusted balance at Jan. 1, 2015 | 1,562 | 13 | 24,626 | 17,683 | (1,634) | (4,809) | 769 | 38,210 | | 229 |
| Shares issued to shareholders of noncontrolling interests | — | — | — | — | — | — | — | — | | 36 |
| Redemption of subsidiary shares from noncontrolling interests | — | — | — | — | — | — | — | — | | (48) |
| Other net changes in noncontrolling interests | — | — | (33) | — | — | — | (33) | (66) | | 37 |
| Net income | — | — | — | 2,465 | — | — | 63 | 2,528 | | (2) |
| Other comprehensive (loss) | — | — | — | — | (721) | — | (17) | (738) | | (5) |
| Dividends: | | | | | | | | | | |
| Common stock at $0.51 per share | — | — | — | (574) | — | — | — | (574) | | — |
| Preferred stock | — | — | — | (49) | — | — | — | (49) | | — |
| Repurchase of common stock | — | — | — | — | — | (1,924) | — | (1,924) | | — |
| Common stock issued under: | | | | | | | | | | |
| Employee benefit plans | — | — | 18 | — | — | — | — | 18 | | — |
| Direct stock purchase and dividend reinvestment plan | — | — | 16 | — | — | — | — | 16 | | — |
| Preferred stock issued | 990 | — | — | — | — | — | — | 990 | | — |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Stock awards and options exercised | — | — | 541 | — | — | — | — | 541 | — |
| Balance at Sept. 30, 2015 | $2,552 | $13 | $25,168 | $19,525 | $(2,355) | $(6,733) | $782 | $38,952 (a) | $247 |

(a) Includes total The Bank of New York Mellon Corporation common shareholders' equity of $35,879 million at Dec. 31, 2014 and $35,618 million at Sept. 30, 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 the 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 derivatives, other-than-temporary impairment, goodwill and other intangibles 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 - Accounting changes and new accounting guidance

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

In February 2015, the FASB issued ASU 2015-02 “Amendments to the Consolidation Analysis,” an amendment to ASC 810, Consolidation.

This ASU eliminated the indefinite deferral of ASU 2010-10 “Amendments for Certain Investment Funds” for asset management funds with characteristics of an investment company and also eliminated the presumption that a general partner should consolidate a limited partnership. Entities that comply with or operate in accordance with the requirements that are similar to those of Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds are excluded from the scope of the ASU. This ASU also changed the consolidation analysis, particularly when a reporting entity has fee arrangements that meet certain requirements and for related party relationships.

The ASU is effective Jan. 1, 2016, with early adoption permitted during an interim period in fiscal year 2015.

In the second quarter of 2015, we elected to early adopt the new accounting guidance retrospectively to Jan. 1, 2015. As a result we restated the first quarter 2015 financial statements.

Adoption of the ASU resulted in a net decrease in consolidated total assets on our balance sheet at Jan. 1, 2015 of $7.7 billion, a decrease of approximately 2%.

The adoption of this ASU did not change the economic risks related to our businesses and therefore, our computation of economic capital did not change.

When evaluating an entity for possible consolidation, the Company must determine whether or not it has a variable interest in the entity. Variable interests are investments or other interests that absorb portions of an entity's expected losses or receive portions of the entity's expected returns. BNY Mellon's variable interests may include its decision maker or service provider fees, its direct and indirect investments and

investments made by related parties, including related parties under common control. If it is determined that BNY Mellon does not have a variable interest in the entity, no further analysis is required and BNY Mellon does not consolidate the entity.

If BNY Mellon holds a variable interest in the entity an analysis must be performed to determine if the entity is a VIE or a voting model entity (“VME”).

We consider the underlying facts and circumstances of individual entities when assessing whether or not an entity is a VIE. An entity is determined to be a VIE if the equity investors:

- do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support; or
- lack one or more of the following characteristics of a controlling financial interest:
- the power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity’s economic performance.
- the obligation to absorb the expected losses of the entity.
- the right to receive the expected residual returns of the entity.

BNY Mellon is required to consolidate a VIE if it is determined to have a controlling financial interest in the entity and therefore is deemed to be the primary beneficiary of the VIE. BNY Mellon is determined to have a controlling financial interest in a VIE when it has both 1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and 2) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to that VIE.

For entities that do not meet the definition of a VIE, the entity is considered a VME. For these entities, if the Company can exert control over the financial and operating policies of an investee, which can occur if it has a 50% or more voting interest in the entity, BNY Mellon consolidates the entity.

BNY Mellon’s VIEs generally include certain retail, institutional and alternative investment funds, including CLOs offered to its retail and institutional customers in which it acts as the fund’s investment manager. The funds are established to provide our clients access to investment vehicles with specific

investment objectives and strategies that address the client’s investment needs. BNY Mellon earns investment management fees on these funds as well as performance fees in certain funds. We may also provide start-up capital for new funds. The VIEs are primarily financed by the customer’s investments in the funds’ equity or debt.

As of Sept. 30, 2015, we had $2.3 billion in assets included in our consolidated financial statements related to investment management funds (VIEs and VMEs) we are required to consolidate. Approximately $2.1 billion of these assets are classified as trading assets while the remainder is classified as other assets. The net assets of any consolidated investment management fund are solely available to settle the liabilities of the entity and to settle any investors’ ownership liquidation requests, including any seed capital invested by BNY Mellon.

Additionally, BNY Mellon had $175 million included in its consolidated financial statements for non-consolidated VIE assets as of Sept. 30, 2015 where we are not the primary beneficiary of the entity. These assets relate solely to seed capital or residual interests invested in the VIEs.

ASU - 2015-07 - Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

In May 2015, the FASB issued an ASU, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." Entity's investments for which fair value is measured at net asset value ("NAV") per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. The fair value will be included in total to permit reconciliation of the fair value of investments with line items presented in the statement of financial position. The ASU is effective Jan. 1, 2016, with early adoption permitted during interim periods in fiscal year 2015. The Company adopted the ASU in the second quarter of 2015 and restated its disclosures for comparative periods in Note 15 "Fair value measurement."

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 for the first interim or annual reporting period beginning after Dec. 15, 2014, and to comply with the enhanced disclosure requirements in the second quarter of 2015. The impact of adopting this ASU did not have a material impact on our results of operations. See Note 17 "Derivative instruments" for the related disclosure.

Note 3 - 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 nine months of 2015.

At Sept. 30, 2015, we are potentially obligated to pay additional consideration that could amount to $4 million over the next 6 months 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.

Dispositions in 2015

On July 31, 2015, BNY Mellon sold Meriten Investment Management GmbH, a German-based investment management boutique for $40 million. As a result of this sale, we recorded an after-tax loss of $12 million. In addition, goodwill of $22 million and customer relationship intangible assets of $9 million were removed from the balance sheet as a result of this sale.

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 conducted 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.

Notes to Consolidated Financial Statements (continued)

Note 4 - Securities

The following tables present the amortized cost, the gross unrealized gains and losses and the fair value of securities at Sept. 30, 2015 and Dec. 31, 2014.

| Securities at Sept. 30, 2015 (in millions) | Amortized cost | Gross unrealized | | Fair value |
|---|---|---|---|---|
| | | Gains | Losses | |
| Available-for-sale: | | | | |
| U.S. Treasury | $12,222 | $301 | $10 | $12,513 |
| U.S. Government agencies | 427 | 4 | — | 431 |
| State and political subdivisions | 4,238 | 95 | 18 | 4,315 |
| Agency RMBS | 23,274 | 327 | 266 | 23,335 |
| Non-agency RMBS | 827 | 34 | 20 | 841 |
| Other RMBS | 1,323 | 16 | 28 | 1,311 |
| Commercial MBS | 1,557 | 20 | 9 | 1,568 |
| Agency commercial MBS | 3,723 | 50 | 11 | 3,762 |
| Asset-backed CLOs | 2,297 | 1 | 7 | 2,291 |
| Other asset-backed securities | 3,138 | 3 | 12 | 3,129 |
| Foreign covered bonds | 2,251 | 57 | — | 2,308 |
| Corporate bonds | 1,802 | 33 | 13 | 1,822 |
| Sovereign debt/sovereign guaranteed | 13,910 | 222 | 36 | 14,096 |
| Other debt securities | 2,241 | 9 | 2 | 2,248 |
| Equity securities | 3 | 1 | — | 4 |
| Money market funds | 770 | — | — | 770 |
| Non-agency RMBS (a) | 1,548 | 396 | 6 | 1,938 |
| Total securities available-for-sale (b) | $75,551 | $1,569 | $438 | $76,682 |
| Held-to-maturity: | | | | |
| U.S. Treasury | $11,326 | $98 | $1 | $11,423 |
| U.S. Government agencies | 1,142 | 2 | — | 1,144 |
| State and political subdivisions | 20 | — | 1 | 19 |
| Agency RMBS | 26,289 | 268 | 42 | 26,515 |
| Non-agency RMBS | 128 | 6 | 2 | 132 |
| Other RMBS | 259 | 1 | 11 | 249 |
| Commercial MBS | 10 | — | — | 10 |
| Agency commercial MBS | 504 | 4 | 1 | 507 |
| Sovereign debt/sovereign guaranteed | 3,635 | 24 | 10 | 3,649 |
| Foreign covered bonds | 78 | — | — | 78 |
| Other debt securities | 32 | — | — | 32 |
| Total securities held-to-maturity | $43,423 | $403 | $68 | $43,758 |
| Total securities | $118,974 | $1,972 | $506 | $120,440 |

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

(b) Includes gross unrealized gains of $92 million and gross unrealized losses of $263 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 Dec. 31, 2014 (in millions) | Amortized cost | Gross unrealized Gains | Losses | Fair value |
|---|---|---|---|---|
| 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) | 3Q15 | 2Q15 | 3Q14 | YTD15 | YTD14 |
|---|---|---|---|---|---|
| Realized gross gains | $23 | $18 | $23 | $66 | $73 |
| Realized gross losses | — | (1) | (1) | (1) | (4) |
| Recognized gross impairments | (1) | (1) | (2) | (3) | (9) |
| Total net securities gains | $22 | $16 | $20 | $62 | $60 |

Notes to Consolidated Financial Statements (continued)

Temporarily impaired securities

At Sept. 30, 2015, the unrealized losses on the investment securities portfolio were primarily attributable to an increase in interest rates from date of purchase, and for certain securities that were transferred from available-for-sale to held-to-maturity, an increase in interest rates through the date they were transferred. Specifically, $263 million of the unrealized losses at Sept. 30, 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 Sept. 30, 2015 | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| (in millions) | Fair value | Unrealized losses | Fair value | Unrealized losses | Fair value | Unrealized losses |
| Available-for-sale: | | | | | | |
| U.S. Treasury | $625 | $10 | $— | $— | $625 | $10 |
| State and political subdivisions | 58 | 1 | 193 | 17 | 251 | 18 |
| Agency RMBS | 2,690 | 13 | 1,398 | 253 | 4,088 | 266 |
| Non-agency RMBS | 141 | 1 | 331 | 19 | 472 | 20 |
| Other RMBS | 81 | 3 | 361 | 25 | 442 | 28 |
| Commercial MBS | 300 | 3 | 213 | 6 | 513 | 9 |
| Agency commercial MBS | 1,715 | 9 | 161 | 2 | 1,876 | 11 |
| Asset-backed CLOs | 1,801 | 7 | 25 | — | 1,826 | 7 |
| Other asset-backed securities | 1,880 | 9 | 372 | 3 | 2,252 | 12 |
| Corporate bonds | 314 | 7 | 175 | 6 | 489 | 13 |
| Sovereign debt/sovereign guaranteed | 3,806 | 36 | 7 | — | 3,813 | 36 |
| Other debt securities | 1,662 | 2 | — | — | 1,662 | 2 |
| Non-agency RMBS (a) | 54 | 2 | 32 | 4 | 86 | 6 |
| Total securities available-for-sale (b) | $15,127 | $103 | $3,268 | $335 | $18,395 | $438 |
| Held-to-maturity: | | | | | | |
| U.S. Treasury | $503 | $1 | $— | $— | $503 | $1 |
| State and political subdivisions | 4 | 1 | — | — | 4 | 1 |
| Agency RMBS | 16,144 | 31 | 1,969 | 11 | 18,113 | 42 |
| Non-agency RMBS | 49 | — | 29 | 2 | 78 | 2 |
| Other RMBS | 49 | — | 177 | 11 | 226 | 11 |
| Agency commercial MBS | 285 | 1 | — | — | 285 | 1 |
| Sovereign debt/sovereign guaranteed | 1,032 | 10 | — | — | 1,032 | 10 |
| Total securities held-to-maturity | $18,066 | $44 | $2,175 | $24 | $20,241 | $68 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total temporarily impaired securities | $33,193 | $147 | $5,443 | $359 | $38,636 | $506 |

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

(b) Includes gross unrealized losses for less than 12 months of $9 million and gross unrealized losses for 12 months or more of $254 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.

Notes to Consolidated Financial Statements (continued)

| Temporarily impaired securities at Dec. 31, 2014 | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| (in millions) | 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 Sept. 30, 2015.

| Maturity distribution and yield on investment securities at Sept. 30, 2015 | U.S. Treasury | | | U.S. Government agencies | | | State and political subdivisions | | | Other bonds, notes and debentures | | | Mortgage/ asset-backed and equity securities | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (dollars in millions) | Amount | Yield (a) | | Amount | Yield (a) | | Amount | Yield (a) | | Amount | Yield (a) | | Amount | Yield (a) | | Tota |
| Securities available-for-sale: | | | | | | | | | | | | | | | | |
| One year or less | $2,393 | 0.87 | % | $126 | 2.16 | % | $706 | 1.63 | % | $4,524 | 0.75 | % | $— | — | % | $7,7 |
| | 5,490 | 1.38 | | 134 | 1.56 | | 2,150 | 2.63 | | 13,615 | 1.10 | | — | — | | 21,3 |

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Over 1 through 5 years | | | | | | | | | | | | | | | | |
| Over 5 through 10 years | 1,155 | 1.98 | | 171 | 2.45 | | 1,260 | 3.94 | | 2,125 | 1.27 | | — | — | | 4,71 |
| Over 10 years | 3,475 | 3.11 | | — | — | | 199 | 1.10 | | 210 | 1.81 | | — | — | | 3,88 |
| Mortgage-backed securities | — | — | | — | — | | — | — | | — | — | | 32,755 | 2.63 | | 32,7 |
| Asset-backed securities | — | — | | — | — | | — | — | | — | — | | 5,420 | 1.19 | | 5,42 |
| Equity securities (b) | — | — | | — | — | | — | — | | — | — | | 774 | — | | 774 |
| Total | $12,513 | 1.82 | % | $431 | 2.09 | % | $4,315 | 2.78 | % | $20,474 | 1.05 | % | $38,949 | 2.38 | % | $76 |
| Securities held-to-maturity: | | | | | | | | | | | | | | | | |
| One year or less | $510 | 1.49 | % | $— | — | % | $— | — | % | $1,484 | 0.24 | % | $— | — | % | $1,9 |
| Over 1 through 5 years | 8,255 | 1.03 | | 1,142 | 1.22 | | 1 | 7.03 | | 1,510 | 0.61 | | — | — | | 10,9 |
| Over 5 through 10 years | 2,561 | 2.06 | | — | — | | 4 | 6.79 | | 751 | 0.71 | | — | — | | 3,31 |
| Over 10 years | — | — | | — | — | | 15 | 5.34 | | — | — | | — | — | | 15 |
| Mortgage-backed securities | — | — | | — | — | | — | — | | — | — | | 27,190 | 2.73 | | 27,1 |
| Total | $11,326 | 1.29 | % | $1,142 | 1.22 | % | $20 | 5.77 | % | $3,745 | 0.48 | % | $27,190 | 2.73 | % | $43 |

(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 to determine whether OTTI has occurred. Such reviews may incorporate the use of economic models. 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 Sept. 30, 2015 and Dec. 31, 2014.

Projected weighted-average default rates and loss severities

| | Sept. 30, 2015 | | Dec. 31, 2014 | |
|---|---|---|---|---|
| | Default rate | Severity | Default rate | Severity |
| Alt-A | 33 % | 57 % | 38 % | 58 % |
| Subprime | 52 % | 72 % | 55 % | 74 % |
| Prime | 18 % | 41 % | 23 % | 42 % |

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

Net securities gains (losses)

| (in millions) | 3Q15 | 2Q15 | 3Q14 | YTD15 | YTD14 |
|---|---|---|---|---|---|
| U.S. Treasury | $8 | $11 | $1 | $42 | $12 |
| Non-agency RMBS | (1) | (1) | 4 | (3) | — |
| Other | 15 | 6 | 15 | 23 | 48 |
| Total net securities gains | $22 | $16 | $20 | $62 | $60 |

The following tables reflect 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) | 3Q15 | 3Q14 |
|---|---|---|

| | | |
|---|---|---|
| Beginning balance as of June 30 | $91 | $107 |
| Add: Initial OTTI credit losses | — | — |
| Subsequent OTTI credit losses | 1 | 2 |
| Less: Realized losses for securities sold | — | 7 |
| Ending balance as of Sept. 30 | $92 | $102 |

| Debt securities credit loss roll forward | Year-to-date | |
|---|---|---|
| (in millions) | 2015 | 2014 |
| Beginning balance as of Jan. 1 | $93 | $119 |
| Add: Initial OTTI credit losses | — | 2 |
| Subsequent OTTI credit losses | 2 | 7 |
| Less: Realized losses for securities sold | 3 | 26 |
| Ending balance as of Sept. 30 | $92 | $102 |

Pledged assets

At Sept. 30, 2015, BNY Mellon had pledged assets of $101 billion, including $83 billion pledged as collateral for potential borrowings at the Federal Reserve Discount Window. The components of the assets pledged at Sept. 30, 2015 included $87 billion of securities, $7 billion of loans, $5 billion of interest-bearing deposits with banks and $2 billion of trading assets.

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 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 Sept. 30, 2015 and Dec. 31, 2014, pledged assets included $6 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 Sept. 30, 2015 and Dec. 31, 2014, the market value of the securities received that can be sold or repledged was $58 billion and $47 billion, respectively. We routinely sell or repledge these securities through delivery to third parties. As of Sept. 30, 2015 and Dec. 31, 2014, the market value of securities collateral sold or repledged was $20 billion and $19 billion, respectively.

## Note 5 - Loans and asset quality

### Loans

The table below provides the details of our loan portfolio and industry concentrations of credit risk at Sept. 30, 2015 and Dec. 31, 2014.

| Loans<br>(in millions) | Sept. 30, 2015 | Dec. 31, 2014 |
|---|---|---|
| Domestic: | | |
| Financial institutions | $6,774 | $5,603 |
| Commercial | 1,869 | 1,390 |
| Wealth management loans and mortgages | 12,561 | 11,095 |
| Commercial real estate | 3,666 | 2,524 |
| Lease financings | 1,106 | 1,282 |
| Other residential mortgages | 1,080 | 1,222 |
| Overdrafts | 1,311 | 1,348 |
| Other | 1,150 | 1,113 |
| Margin loans | 19,200 | 20,034 |
| Total domestic | 48,717 | 45,611 |
| Foreign: | | |
| Financial institutions | 9,193 | 7,716 |
| Commercial | 258 | 252 |
| Wealth management loans and mortgages | 102 | 89 |
| Commercial real estate | 56 | 6 |
| Lease financings | 848 | 889 |
| Other (primarily overdrafts) | 3,921 | 4,569 |
| Margin loans | 214 | — |
| Total foreign | 14,592 | 13,521 |

| | | |
|---|---|---|
| Total loans (a) | $63,309 | $59,132 |

(a) Net of unearned income of $715 million at Sept. 30, 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 Sept. 30, 2015 (in millions) | Commercial | Commercial real estate | Financial institutions | Lease financings | Wealth management loans and mortgages | Other residential mortgages | All Other | | Foreign | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Beginning balance | $ 75 | $ 58 | $ 30 | $ 20 | $ 22 | $ 37 | $— | | $36 | $278 |
| Charge-offs | — | — | — | — | — | (1 ) | — | | — | (1 ) |
| Recoveries | — | — | — | — | — | 2 | — | | — | 2 |
| Net (charge-offs) recoveries | — | — | — | — | — | 1 | — | | — | 1 |
| Provision | 1 | 4 | (2 ) | (2 ) | 1 | (3 ) | — | | 2 | 1 |
| Ending balance | $ 76 | $ 62 | $ 28 | $ 18 | $ 23 | $ 35 | $— | | $38 | $280 |
| Allowance for: | | | | | | | | | | |
| Loan losses | $ 29 | $ 40 | $ 12 | $ 18 | $ 18 | $ 35 | $— | | $29 | $181 |
| Lending-related commitments | 47 | 22 | 16 | — | 5 | — | — | | 9 | 99 |
| Individually evaluated for impairment: | | | | | | | | | | |
| Loan balance | $ — | $ — | $ — | $ — | $ 9 | $ — | $— | | $— | $9 |
| Allowance for loan losses | — | 1 | — | — | 1 | — | — | | — | 2 |
| Collectively evaluated for impairment: | | | | | | | | | | |
| Loan balance | $ 1,869 | $ 3,328 | $ 6,774 | $ 1,106 | $ 12,552 | $ 1,080 | $21,661 | (a) | $14,592 | $62,962 |
| Allowance for loan losses | 29 | 39 | 12 | 18 | 17 | 35 | — | | 29 | 179 |

(a) Includes $1,311 million of domestic overdrafts, $19,200 million of margin loans and $1,150 million of other loans at Sept. 30, 2015.

| Allowance for credit losses activity for the quarter ended June 30, 2015 (in millions) | Commercial | Commercial real estate | Financial institutions | Lease financings | Wealth management loans and mortgages | Other residential mortgages | All Other | Foreign | Total |
|---|---|---|---|---|---|---|---|---|---|
| Beginning balance | $ 65 | $ 53 | $ 33 | $ 31 | $ 21 | $ 40 | $— | $40 | $283 |
| Charge-offs | — | — | — | — | — | (1 ) | — | — | (1 ) |
| Recoveries | — | — | 1 | — | — | 1 | — | — | 2 |
| Net (charge-offs) recoveries | — | — | 1 | — | — | — | — | — | 1 |
| Provision | 10 | 5 | (4 ) | (11 ) | 1 | (3 ) | — | (4 ) | (6 ) |
| Ending balance | $ 75 | $ 58 | $ 30 | $ 20 | $ 22 | $ 37 | $— | $36 | $278 |
| Allowance for: | | | | | | | | | |
| Loan losses | $ 31 | $ 36 | $ 13 | $ 20 | $ 17 | $ 37 | $— | $29 | $183 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Lending-related commitments | 44 | 22 | 17 | — | 5 | — | — | | 7 | 95 |
| Individually evaluated for impairment: | | | | | | | | | | |
| Loan balance | $ — | $ — | $ — | $ — | $ 8 | $ — | $— | | $— | $ 8 |
| Allowance for loan losses | — | — | — | — | 1 | — | — | | — | 1 |
| Collectively evaluated for impairment: | | | | | | | | | | |
| Loan balance | $ 1,601 | $ 3,117 | $ 6,927 | $ 1,077 | $ 12,121 | $ 1,134 | $22,422 | (a) | $14,467 | $62,866 |
| Allowance for loan losses | 31 | 36 | 13 | 20 | 16 | 37 | — | | 29 | 182 |

(a) Includes $1,013 million of domestic overdrafts, $20,247 million of margin loans and $1,162 million of other loans at June 30, 2015.

Notes to Consolidated Financial Statements (continued)

Allowance for credit losses activity for the quarter ended Sept. 30, 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 | $ 74 | $ 45 | $ 43 | $ 33 | $ 22 | $ 47 | $— | $ 47 | $ 311 |
| Charge-offs | (4) | — | — | — | — | — | — | (1) | (5) |
| Recoveries | — | — | — | — | — | 1 | — | — | 1 |
| Net (charge-offs) | (4) | — | — | — | — | 1 | — | (1) | (4) |
| Provision | 1 | 2 | (18) | 1 | — | — | — | (5) | (19) |
| Ending balance | $ 71 | $ 47 | $ 25 | $ 34 | $ 22 | $ 48 | $— | $ 41 | $ 288 |
| Allowance for: | | | | | | | | | |
| Loan losses | $ 20 | $ 30 | $ 9 | $ 34 | $ 17 | $ 48 | $— | $ 33 | $ 191 |
| Lending-related commitments | 51 | 17 | 16 | — | 5 | — | — | 8 | 97 |
| Individually evaluated for impairment: | | | | | | | | | |
| Loan balance | $ 13 | $ 3 | $ — | $ — | $ 9 | $ — | $— | $— | $ 25 |
| Allowance for loan losses | 4 | 1 | — | — | 1 | — | — | — | 6 |
| Collectively evaluated for impairment: | | | | | | | | | |
| Loan balance | $ 1,304 | $ 2,387 | $ 5,465 | $ 1,293 | $ 10,724 | $ 1,262 | $ 19,638 (a) | $ 15,429 | $ 57,502 |
| Allowance for loan losses | 16 | 29 | 9 | 34 | 16 | 48 | — | 33 | 185 |

(a) Includes $1,235 million of domestic overdrafts, $17,548 million of margin loans and $855 million of other loans at Sept. 30, 2014.

Allowance for credit losses activity for the nine months ended Sept. 30, 2015

| (in millions) | Commercial | Commercial real estate | Financial institutions | Lease financings | Wealth management loans and mortgages | Other residential mortgages | All Other | Foreign | Total |
|---|---|---|---|---|---|---|---|---|---|
| Beginning balance | $ 60 | $ 50 | $ 31 | $ 32 | $ 22 | $ 41 | $— | $ 44 | $ 280 |
| Charge-offs | — | — | — | — | — | (2) | — | — | (2) |
| Recoveries | — | — | 1 | — | — | 4 | — | — | 5 |
| Net recoveries | — | — | 1 | — | — | 2 | — | — | 3 |
| Provision | 16 | 12 | (4) | (14) | 1 | (8) | — | (6) | (3) |
| Ending balance | $ 76 | $ 62 | $ 28 | $ 18 | $ 23 | $ 35 | $— | $ 38 | $ 280 |

Allowance for credit losses activity for the nine months ended Sept. 30, 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 | (4) | — | — | — | (1) | (2) | — | (3) | (10) |
| Recoveries | 1 | — | — | — | — | 2 | — | — | 3 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Net (charge-offs) recoveries | (3 ) | — | — | — | (1 ) | — | — | (3 ) | (7 ) |
| Provision | (9 ) | 6 | (24 ) | (3 ) | (1 ) | (6 ) | — | (12 ) | (49 ) |
| Ending balance | $ 71 | $ 47 | $ 25 | $ 34 | $ 22 | $ 48 | $— | $ 41 | $ 288 |

Notes to Consolidated Financial Statements (continued)

Nonperforming assets

The table below presents the distribution of our nonperforming assets.

| Nonperforming assets (in millions) | Sept. 30, 2015 | Dec. 31, 2014 |
| --- | --- | --- |
| Nonperforming loans: | | |
| Other residential mortgages | $103 | $112 |
| Wealth management loans and mortgages | 12 | 12 |
| Commercial real estate | 1 | 1 |
| Total nonperforming loans | 116 | 125 |
| Other assets owned | 7 | 3 |
| Total nonperforming assets (a) | $123 | $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 $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. In the second quarter of 2015, BNY Mellon adopted the new accounting guidance included in ASU 2015-02, Consolidations. As a result, we deconsolidated substantially all of the loans of consolidated investment management funds retrospectively to Jan. 1, 2015.

At Sept. 30, 2015, undrawn commitments to borrowers whose loans were classified as nonaccrual or reduced rate were not material.

Lost interest

The table below presents the amount of lost interest income.

| Lost interest (in millions) | 3Q15 | 2Q15 | 3Q14 | YTD15 | YTD14 |
| --- | --- | --- | --- | --- | --- |
| Amount by which interest income recognized on nonperforming loans exceeded reversals | $— | $— | $— | $— | $1 |
| Amount by which interest income would have increased if nonperforming loans at period end had been performing for the entire period | $2 | $1 | $2 | $5 | $5 |

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 | Quarter ended |
| --- | --- |

| (in millions) | Sept. 30, 2015 Average recorded investment | Sept. 30, 2015 Interest income recognized | June 30, 2015 Average recorded investment | June 30, 2015 Interest income recognized | Sept. 30, 2014 Average recorded investment | Sept. 30, 2014 Interest income recognized |
|---|---|---|---|---|---|---|
| Impaired loans with an allowance: | | | | | | |
| Wealth management loans and mortgages | $6 | $— | $6 | $— | $7 | $— |
| Commercial | — | — | — | — | 13 | — |
| Commercial real estate | — | — | — | — | 3 | — |
| Foreign | — | — | — | — | 2 | — |
| Total impaired loans with an allowance | 6 | — | 6 | — | 25 | — |
| Impaired loans without an allowance: | | | | | | |
| Wealth management loans and mortgages | 2 | — | 2 | — | 2 | — |
| Commercial real estate | — | — | — | — | 1 | — |
| Total impaired loans without an allowance (a) | 2 | — | 2 | — | 3 | — |
| Total impaired loans | $8 | $— | $8 | $— | $28 | $— |

(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.

Notes to Consolidated Financial Statements (continued)

| Impaired loans | Year-to-date | | | |
|---|---|---|---|---|
| | Sept. 30, 2015 | | Sept. 30, 2014 | |
| (in millions) | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized |
| Impaired loans with an allowance: | | | | |
| Wealth management loans and mortgages | $6 | $— | $8 | $— |
| Commercial | — | — | 14 | — |
| Commercial real estate | — | — | 2 | — |
| Foreign | — | — | 4 | — |
| Total impaired loans with an allowance | 6 | — | 28 | — |
| Impaired loans without an allowance: | | | | |
| Wealth management loans and mortgages | 2 | — | 2 | — |
| Commercial real estate | — | — | 1 | — |
| Total impaired loans without an allowance (a) | 2 | — | 3 | — |
| Total impaired loans | $8 | $— | $31 | $— |

(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 | Sept. 30, 2015 | | | Dec. 31, 2014 | | |
|---|---|---|---|---|---|---|
| (in millions) | Recorded investment | Unpaid principal balance | Related allowance (a) | Recorded investment | Unpaid principal balance | Related allowance (a) |
| Impaired loans with an allowance: | | | | | | |
| Wealth management loans and mortgages | $7 | $7 | $1 | $6 | $6 | $1 |
| Commercial real estate | — | 3 | 1 | — | — | — |
| Total impaired loans with an allowance | 7 | 10 | 2 | 6 | 6 | 1 |
| Impaired loans without an allowance: | | | | | | |
| Wealth management loans and mortgages | 2 | 2 | N/A | 2 | 2 | N/A |
| Commercial real estate | — | — | N/A | 1 | 3 | N/A |
| Total impaired loans without an allowance (b) | 2 | 2 | N/A | 3 | 5 | N/A |
| Total impaired loans (c) | $9 | $12 | $2 | $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.

(c) Excludes an aggregate of less than $1 million of impaired loans in amounts individually less than $1 million at both Sept. 30, 2015 and Dec. 31, 2014. The allowance for loan loss associated with these loans totaled less than $1 million at both Sept. 30, 2015 and Dec. 31, 2014.

Past due loans

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

| Past due loans and still accruing interest | Sept. 30, 2015 | | | | Dec. 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Days past due | | | Total | Days past due | | | Total |
| (in millions) | 30-59 | 60-89 | >90 | past due | 30-59 | 60-89 | >90 | past due |
| Commercial real estate | $51 | $1 | $2 | $54 | $79 | $— | $— | $79 |
| Wealth management loans and mortgages | 5 | 3 | 1 | 9 | 45 | — | 1 | 46 |
| Other residential mortgages | 17 | 3 | 7 | 27 | 23 | 3 | 5 | 31 |
| Total past due loans | $73 | $7 | $10 | $90 | $147 | $3 | $6 | $156 |

Notes to Consolidated Financial Statements (continued)

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 third quarter of 2015, second quarter of 2015 and third quarter of 2014.

| TDRs | 3Q15 | | | 2Q15 | | | 3Q14 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Outstanding recorded investment | | | Outstanding recorded investment | | | Outstanding recorded investment | |
| (dollars in millions) | Number of contracts | Pre-modification | Post-modification | Number of contracts | Pre-modification | Post-modification | Number of contracts | Pre-modification | Post-modification |
| Other residential mortgages | 14 | $2 | $ 3 | 20 | $4 | $ 5 | 27 | $4 | $ 5 |
| Total TDRs | 14 | $2 | $ 3 | 20 | $4 | $ 5 | 27 | $4 | $ 5 |

Other residential mortgages

The modifications of the other residential mortgage loans in the third quarter of 2015, second quarter of 2015 and third 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 third 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.

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 | |
|---|---|---|---|---|---|---|
| | Sept. 30, 2015 | Dec. 31, 2014 | Sept. 30, 2015 | Dec. 31, 2014 | Sept. 30, 2015 | Dec. 31, 2014 |
| Investment grade | $1,862 | $1,381 | $2,638 | $1,641 | $14,211 | $11,576 |
| Non-investment grade | 265 | 261 | 1,084 | 889 | 1,756 | 1,743 |
| Total | $2,127 | $1,642 | $3,722 | $2,530 | $15,967 | $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.

Notes to Consolidated Financial Statements (continued)

Wealth management loans and mortgages

| Wealth management loans and mortgages – Credit risk profile by internally assigned grade (in millions) | Sept. 30, 2015 | Dec. 31, 2014 |
|---|---|---|
| Wealth management loans: | | |
| Investment grade | $6,270 | $5,621 |
| Non-investment grade | 114 | 29 |
| Wealth management mortgages | 6,279 | 5,534 |
| Total | $12,663 | $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 61% at origination. In the wealth management portfolio, less than 1% of the mortgages were past due at Sept. 30, 2015.

At Sept. 30, 2015, the wealth management mortgage portfolio consisted of the following geographic concentrations: California - 22%; New York - 20%; Massachusetts - 14%; Florida - 8%; and other - 36%.

Other residential mortgages

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans and totaled $1,080 million at Sept. 30, 2015 and $1,222 million at Dec. 31, 2014. These loans are not typically correlated to external ratings. Included in

this portfolio at Sept. 30, 2015 are $301 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 Sept. 30, 2015, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 76% at origination and 17% 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.

Overdrafts

Overdrafts primarily relate to custody and securities clearance clients and totaled $5,179 million at Sept. 30, 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 $19,414 million of secured margin loans on our balance sheet at Sept. 30, 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.

Notes to Consolidated Financial Statements (continued)

## Note 6 - 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.

BNY Mellon's three business segments include seven reporting units for which goodwill impairment testing

is performed on an annual basis. In the second quarter of 2015, BNY Mellon conducted an annual goodwill impairment test on all seven reporting units. The estimated fair value of the seven reporting units exceeded the carrying value and no goodwill impairment was recognized.

### Goodwill

The tables below provide a breakdown of goodwill by business.

| Goodwill by business (in millions) | Investment Management (a) | Investment Services | Other (a) | Consolidated |
|---|---|---|---|---|
| Balance at Dec. 31, 2014 | $9,328 | $8,467 | $74 | $17,869 |
| Acquisitions/dispositions | 10 | — | (22) | (12) |
| Foreign currency translation | (93) | (80) | (2) | (175) |
| Other (b) | $(3) | $— | $— | $(3) |
| Balance at Sept. 30, 2015 | $9,242 | $8,387 | $50 | $17,679 |

| Goodwill by business (in millions) | Investment Management (a) | Investment Services | Other (a) | Consolidated |
|---|---|---|---|---|
| Balance at Dec. 31, 2013 | $9,446 | $8,550 | $77 | $18,073 |
| Acquisition/dispositions | — | 39 | — | 39 |
| Foreign currency translation | (43) | (75) | (2) | (120) |
| Balance at Sept. 30, 2014 | $9,403 | $8,514 | $75 | $17,992 |

(a) Includes the reclassification of goodwill associated with Meriten Investment Management from Investment Management to Other segment.

(b) Other changes in goodwill include purchase price adjustments and certain other reclassifications.

### Intangible assets

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

| Intangible assets – net carrying amount by business (in millions) | Investment Management (a) | Investment Services | Other (a) | Consolidated |
|---|---|---|---|---|
| Balance at Dec. 31, 2014 | $1,911 | $1,355 | $861 | $4,127 |
| Acquisitions/dispositions | 9 | — | (9) | — |
| Amortization | (73) | (122) | (2) | (197) |

| | | | | |
|---|---|---|---|---|
| Foreign currency translation | (10) | (5) | (1) | (16) |
| Balance at Sept. 30, 2015 | $1,837 | $1,228 | $849 | $3,914 |

| Intangible assets – net carrying amount by business (in millions) | Investment Management (a) | Investment Services | Other (a) | Consolidated |
|---|---|---|---|---|
| Balance at Dec. 31, 2013 | $2,047 | $1,538 | $867 | $4,452 |
| Amortization | (89) | (132) | (4) | (225) |
| Foreign currency translation | (6) | (5) | (1) | (12) |
| Balance at Sept. 30, 2014 | $1,952 | $1,401 | $862 | $4,215 |

(a) Includes the reclassification of intangible assets associated with Meriten Investment Management from Investment Management to Other segment.

Notes to Consolidated Financial Statements (continued)

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

| Intangible assets | Sept. 30, 2015 | | | | Dec. 31, 2014 |
|---|---|---|---|---|---|
| (in millions) | Gross carrying amount | Accumulated amortization | Net carrying amount | Remaining weighted-average amortization period | Net carrying amount |
| Subject to amortization: | | | | | |
| Customer relationships—Investment Management | $1,719 | $(1,335) | $384 | 11 years | $464 |
| Customer contracts—Investment Services | 2,316 | (1,465) | 851 | 10 years | 974 |
| Other | 76 | (66) | 10 | 3 years | 14 |
| Total subject to amortization | 4,111 | (2,866) | 1,245 | 11 years | 1,452 |
| Not subject to amortization: (a) | | | | | |
| Trade name | 1,359 | N/A | 1,359 | N/A | 1,360 |
| Customer relationships | 1,310 | N/A | 1,310 | N/A | 1,315 |
| Total not subject to amortization | 2,669 | N/A | 2,669 | N/A | 2,675 |
| Total intangible assets | $6,780 | $(2,866) | $3,914 | 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 | $263 |
| 2016 | 238 |
| 2017 | 214 |
| 2018 | 181 |
| 2019 | 108 |

Note 7 - Other assets

| Other assets (in millions) | Sept. 30, 2015 | Dec. 31, 2014 |
|---|---|---|
| Accounts receivable | $4,808 | $4,166 |
| Corporate/bank owned life insurance | 4,666 | 4,598 |
| Equity in joint venture and other investments (a) | 3,037 | 3,287 |
| Fails to deliver | 2,089 | 1,351 |
| Software | 1,352 | 1,332 |
| Income taxes receivable | 1,304 | 2,142 |
| Fair value of hedging derivatives | 790 | 851 |
| Prepaid pension assets | 645 | 708 |
| Prepaid expenses | 478 | 451 |
| Due from customers on acceptances | 298 | 247 |
| Other | 2,682 | 1,357 |

| | | |
|---|---|---|
| Total other assets | $22,149 | $20,490 |

(a) Includes Federal Reserve Bank stock of $452 million and $447 million, respectively, at cost.

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.

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.

Notes to Consolidated Financial Statements (continued)

Seed capital and private equity investments valued using NAV

| (dollar amounts in millions) | Sept. 30, 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) | $69 | $ 1 | Daily-quarterly | 0-180 days | $307 | $ — | Daily-quarterly | 0-180 days |
| Private equity investments (b)(c) | 34 | 59 | N/A | N/A | 35 | 45 | N/A | N/A |
| Total | $103 | $ 60 | | | $342 | $ 45 | | |

(a) Other funds include various leveraged loans, structured credit funds and hedge 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 $34 million and $59 million, respectively, at Sept. 30, 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 $872 million at Sept. 30, 2015 and $853 million at Dec. 31, 2014. Commitments to fund future investments in qualified affordable housing projects totaled $337 million at Sept. 30, 2015 and $358 million at Dec. 31, 2014. A summary of the commitments to fund future investments is as follows: 2015—$51 million; 2016—$129 million; 2017—$84 million; 2018—$62 million; 2019—$1 million and 2020 and thereafter— million.

Tax credits and other tax benefits recognized were $33 million in the third quarter of 2015, $32 million in the third quarter of 2014, $32 million in the second quarter of 2015, $98 million in the first nine months of 2015 and $94 million in the first nine months of 2014.

Amortization expense included in the provision for income taxes was $23 million in the third quarter of 2015, $23 million in the third quarter of 2014, $27 million in the second quarter of 2015, $74 million in the first nine months of 2015 and $69 million in the first nine months of 2014.

Notes to Consolidated Financial Statements (continued)

Note 8 - Net interest revenue

The following table provides the components of net interest revenue presented on the Consolidated Income Statement.

| Net interest revenue | Quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| (in millions) | Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 | Sept. 30, 2015 | Sept. 30, 2014 |
| Interest revenue | | | | | |
| Non-margin loans | $188 | $179 | $174 | $540 | $519 |
| Margin loans | 53 | 51 | 48 | 154 | 134 |
| Securities: | | | | | |
| Taxable | 453 | 468 | 398 | 1,360 | 1,186 |
| Exempt from federal income taxes | 20 | 21 | 24 | 63 | 78 |
| Total securities | 473 | 489 | 422 | 1,423 | 1,264 |
| Deposits with banks | 24 | 28 | 58 | 82 | 208 |
| Deposits with the Federal Reserve and other central banks | 43 | 43 | 51 | 131 | 152 |
| Federal funds sold and securities purchased under resale agreements | 39 | 36 | 24 | 105 | 60 |
| Trading assets | 18 | 21 | 32 | 57 | 95 |
| Total interest revenue | 838 | 847 | 809 | 2,492 | 2,432 |
| Interest expense | | | | | |
| Deposits | 9 | 8 | 24 | 32 | 70 |
| Federal funds purchased and securities sold under repurchase agreements | (1) | (1) | (4) | (5) | (11) |
| Trading liabilities | 2 | 3 | 6 | 7 | 21 |
| Other borrowed funds | 2 | 3 | 1 | 7 | 4 |
| Commercial paper | 1 | 1 | 1 | 2 | 1 |
| Customer payables | 1 | 2 | 2 | 5 | 6 |
| Long-term debt | 65 | 52 | 58 | 178 | 173 |
| Total interest expense | 79 | 68 | 88 | 226 | 264 |
| Net interest revenue | $759 | $779 | $721 | $2,266 | $2,168 |

Note 9 - Employee benefit plans

The components of net periodic benefit cost are as follows.

| Net periodic benefit cost (credit) | Quarter ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Sept. 30, 2015 | | | June 30, 2015 | | | Sept. 30, 2014 | | |
| (in millions) | Domestic pension benefits | Foreign pension benefits | Health care benefits | Domestic pension benefits | Foreign pension benefits | Health care benefits | Domestic pension benefits | Foreign pension benefits | Health care benefits |
| Service cost | $— | $8 | $1 | $15 | $8 | $1 | $14 | $9 | $1 |
| Interest cost | 42 | 10 | 2 | 42 | 10 | 2 | 45 | 11 | 3 |
| Expected return on assets | (83) | (13) | (2) | (83) | (13) | (2) | (79) | (15) | (2) |
| Curtailment (gain) | — | — | — | — | — | — | — | — | — |
| Other | 26 | 6 | — | 26 | 6 | — | 28 | 4 | — |
| | $(15) | $11 | $1 | $— | $11 | $1 | $8 | $9 | $2 |

Net periodic benefit cost
(credit)

Notes to Consolidated Financial Statements (continued)

| Net periodic benefit cost (credit) | Year-to-date | | | | | |
|---|---|---|---|---|---|---|
| | Sept. 30, 2015 | | | Sept. 30, 2014 | | |
| (in millions) | Domestic pension benefits | Foreign pension benefits | Health care benefits | Domestic pension benefits | Foreign pension benefits | Health care benefits |
| Service cost | $30 | $24 | $3 | $42 | $27 | $3 |
| Interest cost | 127 | 30 | 6 | 135 | 33 | 9 |
| Expected return on assets | (249) | (39) | (6) | (237) | (45) | (6) |
| Curtailment (gain) | (30) | — | — | — | — | — |
| Other | 83 | 18 | — | 86 | 12 | — |
| Net periodic benefit cost (credit) | $(39) | $33 | $3 | $26 | $27 | $6 |

Note 10 - 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 third quarter of 2015, we recorded total restructuring net recovery of $2 million.

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 third quarter of 2015, we recorded total restructuring charges of $15 million primarily related to severance. The following table presents the activity in the reserve through Sept. 30, 2015.

| Streamlining actions 2014 – restructuring reserve activity | |
|---|---|
| (in millions) | Total |
| Original restructuring charge | $125 |
| Net additional charges | 65 |
| Utilization | (141) |
| Balance at June 30, 2015 | $49 |
| Net additional charges | 15 |
| Utilization | (14) |
| Balance at Sept. 30, 2015 | $50 |

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

| Streamlining actions 2014 – restructuring charge by business | | | Total charges |
|---|---|---|---|
| (in millions) | 3Q15 | 2Q15 | since inception |
| Investment Management | $7 | $5 | $35 |
| Investment Services | 5 | (1) | 89 |
| Other segment (including Business Partners) | 3 | 4 | 81 |
| Total restructuring charge (recovery) | $15 | $8 | $205 |

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. There was an $8 million additional recovery recorded in the third quarter of 2015 related to this program. The following table presents the activity in the restructuring reserve related to the Operational Excellence Initiatives through Sept. 30, 2015.

Notes to Consolidated Financial Statements (continued)

| Operational Excellence Initiatives 2011 – restructuring reserve activity | | | |
|---|---|---|---|
| (in millions) | Severance | Other | Total |
| Original restructuring charge | $78 | $29 | $107 |
| Net additional charges (net recovery/gain) | 91 | (57) | 34 |
| Utilization | (149) | 28 | (121) |
| Balance at June 30, 2015 | 20 | — | 20 |
| Net additional charges (recovery) | (8) | — | (8) |
| Utilization | (2) | — | (2) |
| Balance at Sept. 30, 2015 | $10 | $— | $10 |

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

| Operational Excellence Initiatives 2011 – restructuring charge (recovery) by business | | | Total charges |
|---|---|---|---|
| (in millions) | 3Q15 | 2Q15 | since inception |
| Investment Management | $(3) | $— | $48 |
| Investment Services | (2) | — | 82 |
| Other segment (including Business Partners) | (3) | — | 3 |
| Total restructuring charge (recovery) | $(8) | $— | $133 |

Note 11 - Income taxes

BNY Mellon recorded an income tax provision of $282 million (25.4% effective tax rate) in the third quarter of 2015 and $556 million (33.5% effective tax rate) in the third quarter of 2014. Both effective tax rates primarily reflect tax benefits from foreign operations and tax-exempt income. The gains related to the sales of our equity investment in Wing Hang and our One Wall Street building and litigation expense recorded in the third quarter of 2014 primarily increased the effective tax rate by 7.1%.

Our total tax reserves as of Sept. 30, 2015 were $668 million compared with $665 million at June 30, 2015. If these tax reserves were unnecessary, $668 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 Sept. 30, 2015 is accrued interest, where applicable, of $201 million. The additional tax expense related to interest for the nine months ended Sept. 30, 2015 was $4 million compared with an additional tax benefit of $1 million for the nine months ended Sept. 30, 2014.

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

months by approximately $110 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. On Sept. 9, 2015, the Second Circuit affirmed the Tax Court decision. BNY Mellon intends to seek review by the United States Supreme Court. See Note 18 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 12 - Securitizations and variable interest entities

BNY Mellon's VIEs generally include retail, institutional and alternative investment funds, including collateralized loan obligation structures in which we provide asset management services. The funds are offered to our retail and institutional clients to provide them with access to investment vehicles with specific investment objectives and strategies that address the client's investment needs.

BNY Mellon earns management fees from these funds as well as performance fees in certain funds and may also provide start-up capital for its new funds. The VIEs are primarily financed by our customer's investments in the funds' equity or debt. These VIEs are included in the scope of ASU

Notes to Consolidated Financial Statements (continued)

2015-02 and are reviewed for consolidation based on the guidance in ASC 810.

We reconsider and reassess whether or not we are the primary beneficiary of a VIE when governing documents or contractual arrangements are changed which would reallocate the obligation to absorb expected losses or receive expected residual returns between BNY Mellon and the other investors, when BNY Mellon disposes of its variable interests in the fund or when additional variable interests are issued to other investors and when we acquire additional variable interests in the VIE.

The following tables present the incremental assets and liabilities included in BNY Mellon's consolidated financial statements, after applying intercompany eliminations, as of Sept. 30, 2015 based on the assessments performed in accordance with ASC 810, as amended by ASU 2015-02, and as of Dec. 31, 2014 based on the assessments performed in accordance with ASC 810, prior to the adoption of ASU 2015-02. 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 as amended by ASU 2015-02 at Sept. 30, 2015

| (in millions) | Investment Management funds | | Securitizations | Total consolidated investments |
|---|---|---|---|---|
| Available-for-sale securities | $— | | $400 | $400 |
| Trading assets | 2,087 | | — | 2,087 |
| Other assets | 210 | | — | 210 |
| Total assets | $2,297 | (a) | $400 | $2,697 |
| Trading liabilities | $1,072 | | $— | $1,072 |
| Other liabilities | 91 | | 362 | 453 |
| Total liabilities | $1,163 | (a) | $362 | $1,525 |
| Nonredeemable noncontrolling interests | $782 | (a) | $— | $782 |

(a) Includes VMEs with assets of $91 million, liabilities of $1 million and nonredeemable noncontrolling interests of $3 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 VMEs with assets of $855 million, liabilities of $148 million and nonredeemable noncontrolling interests of $544 million.

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 Sept. 30, 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 Sept. 30, 2015

| (in millions) | Assets | Liabilities | Maximum loss exposure |
|---|---|---|---|
| Other | $175 | $— | $175 |

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.

Notes to Consolidated Financial Statements (continued)

Note 13 - 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 Sept. 30, 2015 and Dec. 31, 2014.

| Preferred stock summary | | | Liquidation preference per share | Total shares issued and outstanding | | Carrying value (a) | |
|---|---|---|---|---|---|---|---|
| (dollars in millions, unless otherwise noted) | | Per annum dividend rate | (in dollars) | Sept. 30, 2015 | Dec. 31, 2014 | Sept. 30, 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 |
| Series E | Noncumulative Perpetual Preferred Stock | 4.95% commencing Dec. 20, 2015 to and including June 20, 2020, then a floating rate equal to the three-month LIBOR plus 3.42% | $100,000 | 10,000 | — | 990 | — |
| Total | | | | 25,826 | 15,826 | $2,552 | $1,562 |

(a) The carrying value of the Series C, Series D and Series E 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. Holders of the Series E preferred stock are entitled to receive dividends, if declared by our board of directors, on each June 20 and December 20, to and including June 20, 2020; and on each March 20, June 20, September 20 and December 20, from and including September 20, 2020. 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, Series D and Series E 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, Series D and Series E 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, Series D and Series E preferred stock to the holders of record of their respective depositary shares.

On Sept. 21, 2015, The Bank of New York Mellon Corporation paid the following dividends for the noncumulative perpetual preferred stock for the dividend period ending in September 2015 to holders of record as of the close of business on Sept. 5, 2015:

- $1,011.11 per share on the Series A Preferred Stock (equivalent to $10.1111 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).

Notes to Consolidated Financial Statements (continued)

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, the Series D preferred stock in whole or in part, on or after the dividend payment date in June 2023 and the

Series E preferred stock in whole or in part, on or after the dividend payment date in June 2020. The Series C, Series D or Series E 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 each of the Series C, Series D and Series E's Certificates of Designation).

Terms of the Series A, Series C, Series D and Series E 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 14 - Other comprehensive income (loss)

Components of other comprehensive income (loss)

| | Quarter ended Sept. 30, 2015 | | | June 30, 2015 | | | Sept. 30, 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| (in millions) | 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 | $(132) | $(31) | $(163) | $239 | $90 | $329 | $(505) | $(84) | $(589) |
| Total foreign currency translation | (132) | (31) | (163) | 239 | 90 | 329 | (505) | (84) | (589) |
| Unrealized gain (loss) on assets available-for-sale: | | | | | | | | | |
| Unrealized gain (loss) arising during period | (3) | 10 | 7 | (499) | 141 | (358) | (18) | 22 | 4 |
| Reclassification adjustment (a) | (22) | 8 | (14) | (16) | 6 | (10) | (20) | 7 | (13) |
| Net unrealized gain (loss) on assets available-for-sale | (25) | 18 | (7) | (515) | 147 | (368) | (38) | 29 | (9) |
| Defined benefit plans: | | | | | | | | | |
| Net gain (loss) arising during the period | 3 | (1) | 2 | — | — | — | — | — | — |
| Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost (a) | 32 | (11) | 21 | 32 | (11) | 21 | 31 | (12) | 19 |
| Total defined benefit plans | 35 | (12) | 23 | 32 | (11) | 21 | 31 | (12) | 19 |
| Unrealized gain (loss) on cash flow hedges: | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Unrealized hedge gain (loss) arising during period | (3) | (6) | (9) | 1 | 1 | 2 | 15 | (6) | 9 |
| Reclassification adjustment (a) | 3 | 6 | 9 | 11 | (4) | 7 | (31) | 10 | (21) |
| Net unrealized gain (loss) on cash flow hedges | — | — | — | 12 | (3) | 9 | (16) | 4 | (12) |
| Total other comprehensive income (loss) | $(122) | $(25) | $(147) | $(232) | $223 | $(9) | $(528) | $(63) | $(591) |

(a) 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 obligation included in net periodic benefit cost is recorded as staff expense on the Consolidated Income Statement. See Note 17 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)

Components of other comprehensive income (loss)

| | Year-to-date Sept. 30, 2015 | | | Sept. 30, 2014 | | |
|---|---|---|---|---|---|---|
| (in millions) | 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 | $(396) | $(39) | $(435) | $(432) | $(43) | $(475) |
| Total foreign currency translation | (396) | (39) | (435) | (432) | (43) | (475) |
| Unrealized gain (loss) on assets available-for-sale: | | | | | | |
| Unrealized gain (loss) arising during period | (300) | 83 | (217) | 519 | (143) | 376 |
| Reclassification adjustment (a) | (62) | 23 | (39) | (60) | 20 | (40) |
| Net unrealized gain (loss) on assets available-for-sale | (362) | 106 | (256) | 459 | (123) | 336 |
| Defined benefit plans: | | | | | | |
| Net gain (loss) arising during the period | (182) | 75 | (107) | — | — | — |
| Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost (a) | 71 | (24) | 47 | 92 | (37) | 55 |
| Total defined benefit plans | (111) | 51 | (60) | 92 | (37) | 55 |
| Unrealized gain (loss) on cash flow hedges: | | | | | | |
| Unrealized hedge gain (loss) arising during period | — | — | — | 18 | (9) | 9 |
| Reclassification adjustment (a) | 11 | (3) | 8 | (34) | 12 | (22) |
| Net unrealized gain (loss) on cash flow hedges | 11 | (3) | 8 | (16) | 3 | (13) |
| Total other comprehensive income (loss) | $(858) | $115 | $(743) | $103 | $(200) | $(97) |

(a) 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 obligation included in net periodic benefit cost is recorded as staff expense on the Consolidated Income Statement. See Note 17 of the Notes to Consolidated Financial Statements for the location of the reclassification adjustment related to cash flow hedges on the Consolidated Income Statement.

## Note 15 - 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. See Note 20 of the Notes to Consolidated Financial Statements in our 2014 Annual Report for information on how we determine fair value and the fair value hierarchy.

The following tables present the financial instruments carried at fair value at Sept. 30, 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 third quarter of 2015.

Notes to Consolidated Financial Statements (continued)

Assets measured at fair value on a recurring basis at Sept. 30, 2015

| (dollar amounts in millions) | Level 1 | Level 2 | Level 3 | Netting (a) | Total carrying value |
|---|---|---|---|---|---|
| Available-for-sale securities: | | | | | |
| U.S. Treasury | $12,513 | $— | $— | $— | $ 12,513 |
| U.S. Government agencies | — | 431 | — | — | 431 |
| Sovereign debt/sovereign guaranteed | 35 | 14,061 | — | — | 14,096 |
| State and political subdivisions (b) | — | 4,304 | 11 | — | 4,315 |
| Agency RMBS | — | 23,335 | — | — | 23,335 |
| Non-agency RMBS | — | 841 | — | — | 841 |
| Other RMBS | — | 1,311 | — | — | 1,311 |
| Commercial MBS | — | 1,568 | — | — | 1,568 |
| Agency commercial MBS | — | 3,762 | — | — | 3,762 |
| Asset-backed CLOs | — | 2,291 | — | — | 2,291 |
| Other asset-backed securities | — | 3,129 | — | — | 3,129 |
| Equity securities | 4 | — | — | — | 4 |
| Money market funds (b) | 770 | — | — | — | 770 |
| Corporate bonds | — | 1,822 | — | — | 1,822 |
| Other debt securities | — | 2,248 | — | — | 2,248 |
| Foreign covered bonds | 2,038 | 270 | — | — | 2,308 |
| Non-agency RMBS (c) | — | 1,938 | — | — | 1,938 |
| Total available-for-sale securities | 15,360 | 61,311 | 11 | — | 76,682 |
| Trading assets: | | | | | |
| Debt and equity instruments (b) | 561 | 1,971 | — | — | 2,532 |
| Derivative assets not designated as hedging: | | | | | |
| Interest rate | 28 | 11,454 | — | (8,893) | 2,589 |
| Foreign exchange | — | 4,222 | — | (2,782) | 1,440 |
| Equity | 41 | 115 | — | (72) | 84 |
| Total derivative assets not designated as hedging | 69 | 15,791 | — | (11,747) | 4,113 |
| Total trading assets | 630 | 17,762 | — | (11,747) | 6,645 |
| Loans | — | 338 | — | — | 338 |
| Other assets: | | | | | |
| Derivative assets designated as hedging: | | | | | |
| Interest rate | — | 648 | — | — | 648 |
| Foreign exchange | — | 142 | — | — | 142 |
| Total derivative assets designated as hedging | — | 790 | — | — | 790 |
| Other assets (d) | 198 | 109 | — | — | 307 |
| Other assets measured at net asset value | | | | | 103 |
| Total other assets | 198 | 899 | — | — | 1,200 |
| Subtotal assets of operations at fair value | 16,188 | 80,310 | 11 | (11,747) | 84,865 |
| Percentage of assets prior to netting | 17 % | 83 % | — % | | |
| Assets of consolidated investment management funds: | | | | | |
| Trading assets | 370 | 1,717 | — | — | 2,087 |
| Other assets | 197 | 13 | — | — | 210 |
| Total assets of consolidated investment management funds | 567 | 1,730 | — | — | 2,297 |
| Total assets | $16,755 | $82,040 | $11 | $(11,747) | $ 87,162 |
| Percentage of assets prior to netting | 17 % | 83 % | — % | | |

Notes to Consolidated Financial Statements (continued)

Liabilities measured at fair value on a recurring basis at Sept. 30, 2015

| (dollar amounts in millions) | Level 1 | Level 2 | Level 3 | Netting (a) | Total carrying value |
|---|---|---|---|---|---|
| Trading liabilities: | | | | | |
| Debt and equity instruments | $246 | $154 | $— | $— | $ 400 |
| Derivative liabilities not designated as hedging: | | | | | |
| Interest rate | 17 | 11,406 | — | (8,991) | 2,432 |
| Foreign exchange | — | 4,179 | — | (2,352) | 1,827 |
| Equity and other contracts | 18 | 133 | — | (54) | 97 |
| Total derivative liabilities not designated as hedging | 35 | 15,718 | — | (11,397) | 4,356 |
| Total trading liabilities | 281 | 15,872 | — | (11,397) | 4,756 |
| Long-term debt (b) | — | 362 | — | — | 362 |
| Other liabilities - derivative liabilities designated as hedging: | | | | | |
| Interest rate | — | 470 | — | — | 470 |
| Foreign exchange | — | 48 | — | — | 48 |
| Total other liabilities - derivative liabilities designated as hedging | — | 518 | — | — | 518 |
| Subtotal liabilities of operations at fair value | 281 | 16,752 | — | (11,397) | 5,636 |
| Percentage of liabilities prior to netting | 2% | 98% | —% | | |
| Liabilities of consolidated investment management funds: | | | | | |
| Trading liabilities | — | 1,072 | — | — | 1,072 |
| Other liabilities | 1 | 90 | — | — | 91 |
| Total liabilities of consolidated investment management funds | 1 | 1,162 | — | — | 1,163 |
| Total liabilities | $282 | $17,914 | $— | $(11,397) | $ 6,799 |
| Percentage of liabilities prior to netting | 2% | 98% | —% | | |

(a) 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 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)(e) | 174 | 514 | 35 | — | 723 |
| Other assets measured at net asset value (e) | | | | | 342 |
| Total other assets | 174 | 1,365 | 35 | — | 1,916 |
| Subtotal assets of operations at fair value | 25,626 | 102,472 | 55 | (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 | $26,183 | $111,197 | $55 | $(18,347 ) | $ 119,430 |
| Percentage of assets prior to netting | 19 % | 81 % | — % | | |

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 % | — % | | |

(a) 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 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.

(e) Other assets measured at fair value at Dec. 31, 2014 were restated to reflect the retrospective application of adopting new disclosure guidance contained in ASU 2015-07 related to investments in certain entities that use NAV as a practical expedient when measuring fair value. See Note 2 of the Notes to Consolidated Financial Statements for additional information.

Notes to Consolidated Financial Statements (continued)

| Details of certain items measured at fair value on a recurring basis (dollar amounts in millions) | Sept. 30, 2015 | | | | | Dec. 31, 2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Ratings | | | | | Ratings | | | |
| | Total carrying value (a) | AAA/ AA- | A+/ A- | BBB+/ BBB- | BB+ and lower | Total carrying value (a) | AAA/ AA- | A+/ A- | BBB+/ BBB- | BB+ and lower |
| Non-agency RMBS, originated in: | | | | | | | | | | |
| 2007 | $70 | — % | — % | — % | 100 % | $78 | — % | — % | — % | 100 % |
| 2006 | 129 | — | — | — | 100 | 138 | — | — | — | 100 |
| 2005 | 247 | 2 | 23 | 16 | 59 | 284 | — | 21 | 19 | 60 |
| 2004 and earlier | 395 | 4 | 4 | 26 | 66 | 453 | 3 | 5 | 27 | 65 |
| Total non-agency RMBS | $841 | 2 % | 9 % | 17 % | 72 % | $953 | 1 % | 9 % | 19 % | 71 % |
| Commercial MBS - Domestic, originated in: | | | | | | | | | | |
| 2009-2015 | $653 | 84 % | 16 % | — % | — % | $639 | 83 % | 17 % | — % | — % |
| 2008 | 17 | 100 | — | — | — | 19 | 100 | — | — | — |
| 2007 | 320 | 63 | 21 | 16 | — | 353 | 65 | 21 | 14 | — |
| 2006 | 476 | 79 | 21 | — | — | 599 | 83 | 17 | — | — |
| 2005 | 38 | 100 | — | — | — | 271 | 100 | — | — | — |
| 2004 and earlier | — | — | — | — | — | 6 | 100 | — | — | — |
| Total commercial MBS - Domestic | $1,504 | 79 % | 18 % | 3 % | — % | $1,887 | 82 % | 15 % | 3 % | — % |
| Foreign covered bonds: | | | | | | | | | | |
| Canada | $1,074 | 100 % | — % | — % | — % | $1,266 | 100 % | — % | — % | — % |
| United Kingdom | 420 | 100 | — | — | — | 690 | 100 | — | — | — |
| Netherlands | 221 | 100 | — | — | — | 244 | 100 | — | — | — |
| Other | 593 | 100 | — | — | — | 668 | 100 | — | — | — |
| Total foreign covered bonds | $2,308 | 100 % | — % | — % | — % | $2,868 | 100 % | — % | — % | — % |
| European floating rate notes - available-for-sale: | | | | | | | | | | |
| United Kingdom | $994 | 85 % | 15 % | — % | — % | $1,172 | 83 % | 17 % | — % | — % |
| Netherlands | 236 | 100 | — | — | — | 296 | 100 | — | — | — |
| Ireland | 125 | — | — | — | 100 | 144 | — | — | — | 100 |
| Other | 19 | 100 | — | — | — | 25 | 99 | 1 | — | — |
| Total European floating rate notes - available-for-sale | $1,374 | 80 % | 11 % | — % | 9 % | $1,637 | 79 % | 12 % | — % | 9 % |
| Sovereign debt/sovereign guaranteed: | | | | | | | | | | |
| United Kingdom | $3,040 | 100 % | — % | — % | — % | $5,076 | 100 % | — % | — % | — % |
| France | 2,530 | 100 | — | — | — | 3,550 | 100 | — | — | — |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Spain | 1,939 | — | — | 100 | — | 1,978 | — | — | 100 | — |
| Germany | 1,776 | 100 | — | — | — | 1,522 | 100 | — | — | — |
| Italy | 1,403 | — | — | 100 | — | 1,427 | — | — | 100 | — |
| Belgium | 1,387 | 100 | — | — | — | 829 | 100 | — | — | — |
| Netherlands | 920 | 100 | — | — | — | 1,800 | 100 | — | — | — |
| Ireland | 793 | — | 18 | 82 | — | 672 | — | — | 100 | — |
| Other | 308 | 72 | — | 28 | — | 430 | 81 | — | 19 | — |
| Total sovereign debt/sovereign guaranteed | $14,096 | 70 % | 1 % | 29 % | — % | $17,284 | 76 % | — % | 24 % | — % |
| Non-agency RMBS (b), originated in: | | | | | | | | | | |
| 2007 | $546 | — % | — % | — % | 100 % | $620 | — % | — % | — % | 100 % |
| 2006 | 572 | — | — | 1 | 99 | 653 | — | — | 1 | 99 |
| 2005 | 633 | — | 2 | 1 | 97 | 727 | — | 3 | 1 | 96 |
| 2004 and earlier | 187 | — | 3 | 9 | 88 | 214 | — | 4 | 7 | 89 |
| Total non-agency RMBS (b) | $1,938 | — % | 1 % | 1 % | 98 % | $2,214 | — % | 1 % | 1 % | 98 % |

(a) At Sept. 30, 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 three and nine months ended Sept. 30, 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 Sept. 30, 2015

| | Available-for-sale securities | | Trading assets | | | | |
|---|---|---|---|---|---|---|---|
| (in millions) | State and political subdivisions | | Derivative assets | (a) | Other assets | | Total assets |
| Fair value at June 30, 2015 | $ 11 | | $1 | | $28 | | $40 |
| Transfers out of Level 3 | — | | — | | — | | — |
| Total gains or (losses) for the period: | | | | | | | |
| Included in earnings (or changes in net assets) | — | (b) | — | (c) | 10 | (d) | 10 |
| Sales and settlements: | | | | | | | |
| Sales | — | | — | | (38) | | (38) |
| Settlements | — | | (1) | | — | | (1) |
| Fair value at Sept. 30, 2015 | $ 11 | | $— | | $— | | $11 |
| 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 | | | $— | | $— | | $— |

(a) Derivative assets are reported on a gross basis.
(b) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in 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 Sept. 30, 2015

| | Trading liabilities | | |
|---|---|---|---|
| (in millions) | Derivative liabilities | (a) | Total liabilities |
| Fair value at June 30, 2015 | $1 | | $1 |
| Transfers out of Level 3 | — | | — |
| Total (gains) or losses for the period: | | | |
| Included in earnings (or changes in net liabilities) | — | (b) | — |
| Settlements | (1) | | (1) |
| Fair value at Sept. 30, 2015 | $— | | $— |
| 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 | $— | | $— |

(a) Derivative liabilities are reported on a gross basis.
(b) Reported in foreign exchange and other trading revenue.

Notes to Consolidated Financial Statements (continued)

Fair value measurements for assets using significant unobservable inputs for the three months ended Sept. 30, 2014

| (in millions) | Available-for-sale securities: State and political subdivisions | | Trading assets: Debt and equity instruments | | Derivative assets (a) | | Other assets | | Total assets (b) |
|---|---|---|---|---|---|---|---|---|---|
| Fair value at June 30, 2014 | $ 11 | | $1 | | $22 | | $— | | $34 |
| Transfers out of Level 3 | — | | — | | (10) | | — | | (10) |
| Transfers into of Level 3 | — | | — | | — | | 38 | | 38 |
| Total gains or (losses) for the period: | | | | | | | | | |
| Included in earnings (or changes in net assets) | — | (c) | — | (d) | 13 | (d) | — | (e) | 13 |
| Settlements | — | | (1) | | (1) | | — | | (2) |
| Fair value at Sept. 30, 2014 | $ 11 | | $— | | $24 | | $38 | | $73 |
| 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 | | | $— | | $16 | | $— | | $16 |

(a) Derivative assets are reported on a gross basis.
(b) Total assets measured at fair value at Dec. 31, 2014 were restated to reflect the retrospective application of adopting new disclosure guidance contained in ASU 2015-07 related to investments in certain entities that use NAV as a practical expedient when measuring fair value. See Note 2 for additional information.
(c) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).
(d) Reported in foreign exchange and other trading revenue.
(e) Reported in investment and other income.

Fair value measurements for liabilities using significant unobservable inputs for the three months ended Sept. 30, 2014

| (in millions) | Trading liabilities: Derivative liabilities (a) | | Total liabilities |
|---|---|---|---|
| Fair value at June 30, 2014 | $51 | | $51 |
| Transfers out of Level 3 | (2) | | (2) |
| Total (gains) or losses for the period: | | | |
| Included in earnings (or changes in net liabilities) | (23) | (b) | (23) |
| Fair value at Sept. 30, 2014 | $26 | | $26 |
| 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 | $(12) | | $(12) |

(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 nine months ended Sept. 30, 2015

| (in millions) | Available-for-sale securities | Trading assets | (a) | Other | Total |
|---|---|---|---|---|---|

| | State and political subdivisions | | Derivative assets | | assets | | assets |
|---|---|---|---|---|---|---|---|
| Fair value at Dec. 31, 2014 | $ 11 | | $9 | | $35 | | $55 |
| Transfers out of Level 3 | — | | (3 ) | | — | | (3 ) |
| Total gains or (losses) for the period: | | | | | | | |
| Included in earnings (or changes in net assets) | — | (b) | (1 ) | (c) | 10 | (d) | 9 |
| Purchases, sales and settlements: | | | | | | | |
| Purchases | — | | — | | 3 | | 3 |
| Sales | — | | — | | (48 ) | | (48 ) |
| Settlements | — | | (5 ) | | — | | (5 ) |
| Fair value at Sept. 30, 2015 | $ 11 | | $— | | $— | | $11 |
| 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 | | | $— | | $— | | $— |

(a) Derivative assets are reported on a gross basis.

(b) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in 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 nine months ended Sept. 30, 2015

| (in millions) | Trading liabilities Derivative liabilities (a) | Total liabilities |
|---|---|---|
| Fair value at Dec. 31, 2014 | $9 | $9 |
| Transfers out of Level 3 | (3) | (3) |
| Total (gains) or losses for the period: | | |
| Included in earnings (or changes in net liabilities) | (1) (b) | (1) |
| Settlements | (5) | (5) |
| Fair value at Sept. 30, 2015 | $— | $— |
| 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 | $— | $— |

(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 nine months ended Sept. 30, 2014

| (in millions) | Available-for-sale securities | Trading assets | | | |
|---|---|---|---|---|---|
| | State and political subdivisions | Debt and equity instruments | Derivative assets (a) | Other assets | Total assets (b) |
| Fair value at Dec. 31, 2013 | $ 11 | $1 | $22 | $— | $34 |
| Transfers out of Level 3 | — | — | (12) | — | (12) |
| Transfers into of Level 3 | — | — | — | 38 | 38 |
| Total gains or (losses) for the period: | | | | | |
| Included in earnings (or changes in net assets) | — (c) | — (d) | 15 (d) | — (e) | 15 |
| Settlements | — | (1) | (1) | — | (2) |
| Fair value at Sept. 30, 2014 | $ 11 | $— | $24 | $38 | $73 |
| 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 | | $— | $19 | $— | $19 |

(a) Derivative assets are reported on a gross basis.
(b) Total assets measured at fair value at Dec. 31, 2014 were restated to reflect the retrospective application of adopting new disclosure guidance contained in ASU 2015-07 related to investments in certain entities that use NAV as a practical expedient when measuring fair value. See Note 2 for additional information.
(c) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).
(d) Reported in foreign exchange and other trading revenue.
(e) Reported in investment and other income.

Fair value measurements for liabilities using significant unobservable inputs for the nine months ended Sept. 30, 2014

| (in millions) | Trading liabilities Derivative liabilities (a) | Total liabilities |
|---|---|---|

| | | | | |
|---|---|---|---|---|
| Fair value at Dec. 31, 2013 | $75 | | $75 | |
| Transfers out of Level 3 | (39 | ) | (39 | ) |
| Total (gains) or losses for the period: | | | | |
| Included in earnings (or changes in net liabilities) | (13 | ) (b) | (13 | ) |
| Purchases | 3 | | 3 | |
| Fair value at Sept. 30, 2014 | $26 | | $26 | |
| 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.

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.

Notes to Consolidated Financial Statements (continued)

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 Sept. 30,

2015 and Dec. 31, 2014, for which a nonrecurring change in fair value has been recorded during the quarters ended Sept. 30, 2015 and Dec. 31, 2014.

| Assets measured at fair value on a nonrecurring basis at Sept. 30, 2015 | | | | Total carrying |
|---|---|---|---|---|
| (in millions) | Level 1 | Level 2 | Level 3 | value |
| Loans (a) | $— | $101 | $2 | $103 |
| Other assets (b) | — | 9 | — | 9 |
| Total assets at fair value on a nonrecurring basis | $— | $110 | $2 | $112 |

| Assets measured at fair value on a nonrecurring basis at Dec. 31, 2014 | | | | Total carrying |
|---|---|---|---|---|
| (in millions) | Level 1 | Level 2 | Level 3 | value |
| Loans (a) | $— | $112 | $2 | $114 |
| Other assets (b) | — | 6 | — | 6 |
| Total assets at fair value on a nonrecurring basis | $— | $118 | $2 | $120 |

(a) During the quarters ended Sept. 30, 2015 and Dec. 31, 2014, the fair value of these loans decreased $1 million and $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.

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 Sept. 30, 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 | 0%-1% |

Estimated fair value of financial instruments

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 Sept. 30, 2015 and Dec. 31, 2014, by caption on the consolidated balance sheet and by the valuation hierarchy. See Note 20 of the Notes to Consolidated

Financial Statements in our 2014 Annual Report for additional information regarding the financial instruments within the scope of this disclosure, and the methods and significant assumptions used to estimate their fair value.

Notes to Consolidated Financial Statements (continued)

| Summary of financial instruments | Sept. 30, 2015 | | | | |
|---|---|---|---|---|---|
| (in millions) | Level 1 | Level 2 | Level 3 | Total estimated fair value | Carrying amount |
| Assets: | | | | | |
| Interest-bearing deposits with the Federal Reserve and other central banks | $— | $82,426 | $— | $82,426 | $82,426 |
| Interest-bearing deposits with banks | — | 20,007 | — | 20,007 | 20,002 |
| Federal funds sold and securities purchased under resale agreements | — | 28,901 | — | 28,901 | 28,901 |
| Securities held-to-maturity | 11,501 | 32,257 | — | 43,758 | 43,423 |
| Loans | — | 61,022 | — | 61,022 | 60,836 |
| Other financial assets | 8,234 | 1,066 | — | 9,300 | 9,300 |
| Total | $19,735 | $225,679 | $— | $245,414 | $244,888 |
| Liabilities: | | | | | |
| Noninterest-bearing deposits | $— | $101,111 | $— | $101,111 | $101,111 |
| Interest-bearing deposits | — | 164,893 | — | 164,893 | 165,657 |
| Federal funds purchased and securities sold under repurchase agreements | — | 8,824 | — | 8,824 | 8,824 |
| Payables to customers and broker-dealers | — | 22,236 | — | 22,236 | 22,236 |
| Borrowings | — | 758 | — | 758 | 758 |
| Long-term debt | — | 21,481 | — | 21,481 | 21,068 |
| Total | $— | $319,303 | $— | $319,303 | $319,654 |

| Summary of financial instruments | Dec. 31, 2014 | | | | |
|---|---|---|---|---|---|
| (in millions) | Level 1 | Level 2 | Level 3 | Total estimated fair value | Carrying amount |
| 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<br>(in millions) | Carrying amount | Notional amount of hedge | Unrealized Gain | (Loss) |
|---|---|---|---|---|
| Sept. 30, 2015 | | | | |
| Securities available-for-sale | $8,011 | $7,820 | $10 | $(462) |
| Long-term debt | 17,648 | 17,051 | 636 | (8) |
| Dec. 31, 2014 | | | | |
| Securities available-for-sale | $7,294 | $7,045 | $4 | $(370) |
| Long-term debt | 16,469 | 16,100 | 470 | (14) |

Notes to Consolidated Financial Statements (continued)

Note 16 - 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.

Assets and liabilities of consolidated investment management funds, at fair value

| (in millions) | Sept. 30, 2015 | Dec. 31, 2014 |
|---|---|---|
| Assets of consolidated investment management funds: | | |
| Trading assets | $2,087 | $8,678 |
| Other assets | 210 | 604 |
| Total assets of consolidated investment management funds | $2,297 | $9,282 |
| Liabilities of consolidated investment management funds: | | |
| Trading liabilities | $1,072 | $7,660 |
| Other liabilities | 91 | 9 |
| Total liabilities of consolidated investment management funds | $1,163 | $7,669 |

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 note holders, respectively.

We have elected the fair value option on $333 million and $21 million of loans at Sept. 30, 2015 and Dec. 31, 2014, respectively. The fair value of these loans was $338 million at Sept. 30, 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 $362 million at Sept. 30, 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)

| | Quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| (in millions) | Sept. 30, 2015 | June 30, 2015 | Sept. 30, 2014 | Sept. 30, 2015 | Sept. 30, 2014 |
| Loans: | | | | | |
| Investment and other income | $6 | $(3) | $— | $5 | $— |
| Long-term debt: | | | | | |
| | $(11) | $4 | $1 | $(15) | $(16) |

Foreign exchange and
other trading revenue

(a) The changes in fair value of the loans and long-term debt are approximately offset by economic hedges included in foreign exchange and other trading revenue.

## Note 17 - 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 in compliance with the Volcker Rule.

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. There were no counterparty default losses in the third quarter of 2015 and $8 million of counterparty default losses in the third quarter of 2014.

Notes to Consolidated Financial Statements (continued)

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 Sept. 30, 2015, $7.7 billion face amount of securities were hedged with interest rate swaps that had notional values of $7.8 billion.

The fixed rate long-term debt instruments hedged generally have original maturities of five to 30 years. 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 Sept. 30, 2015, $17.1 billion par value of debt was hedged with interest rate swaps that had notional values of $17.1 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 Sept. 30, 2015, the hedged forecasted foreign currency

transactions and designated forward foreign exchange contract hedges were $210 million (notional), with a pre-tax loss of $2 million recorded in accumulated other comprehensive income. This loss will be reclassified to income or expense 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 Sept. 30, 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 Sept. 30, 2015, had a combined U.S. dollar equivalent value of $474 million.

Ineffectiveness related to derivatives and hedging relationships was recorded in income as follows:

| Ineffectiveness | Nine months ended | | |
|---|---|---|---|
| (in millions) | Sept. 30, 2015 | Sept. 30, 2014 | |
| Fair value hedges of securities | $2.8 | $(7.7 | ) |

| | | |
|---|---|---|
| Fair value hedges of deposits and long-term debt | (4.8) | (12.0) |
| Cash flow hedges | — | 0.1 |
| Other (a) | — | (0.1) |
| Total | $(2.0) | $(19.7) |

(a) Includes ineffectiveness recorded on foreign exchange hedges.

Notes to Consolidated Financial Statements (continued)

The following table summarizes the notional amount and credit exposure of our total derivative portfolio at Sept. 30, 2015 and Dec. 31, 2014.

| Impact of derivative instruments on the balance sheet | Notional value | | Asset derivatives fair value | | Liability derivatives fair value | |
|---|---|---|---|---|---|---|
| (in millions) | Sept. 30, 2015 | Dec. 31, 2014 | Sept. 30, 2015 | Dec. 31, 2014 | Sept. 30, 2015 | Dec. 31, 2014 |
| Derivatives designated as hedging instruments (a): | | | | | | |
| Interest rate contracts | $24,871 | $23,145 | $648 | $477 | $470 | $385 |
| Foreign exchange contracts | 7,158 | 7,344 | 142 | 374 | 48 | 62 |
| Total derivatives designated as hedging instruments | | | $790 | $851 | $518 | $447 |
| Derivatives not designated as hedging instruments (b): | | | | | | |
| Interest rate contracts | $573,832 | $731,628 | $11,482 | $17,150 | $11,423 | $17,654 |
| Foreign exchange contracts | 603,954 | 528,401 | 4,222 | 6,280 | 4,179 | 6,367 |
| Equity contracts | 2,841 | 10,842 | 156 | 377 | 151 | 549 |
| Credit contracts | 155 | — | — | — | — | — |
| Total derivatives not designated as hedging instruments | | | $15,860 | $23,807 | $15,753 | $24,570 |
| Total derivatives fair value (c) | | | $16,650 | $24,658 | $16,271 | $25,017 |
| Effect of master netting agreements (d) | | | (11,747) | (18,347) | (11,397) | (17,797) |
| Fair value after effect of master netting agreements | | | $4,903 | $6,311 | $4,874 | $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 $893 million and $543 million, respectively, at Sept. 30, 2015, and $1,589 million and $1,039 million, respectively, at Dec. 31, 2014.

At Sept. 30, 2015, $304 billion (notional) of interest rate contracts will mature within one year, $150 billion between one and five years and $145 billion after five years. At Sept. 30, 2015, $599 billion (notional) of foreign exchange contracts will mature within one year, $7 billion between one and five years and $5 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 | | |
|---|---|---|---|---|---|---|---|---|
| | | 3Q15 | 2Q15 | 3Q14 | | 3Q15 | 2Q15 | 3Q14 |
| Interest rate contracts | Net interest revenue | $(93) | $255 | $(200) | Net interest revenue | $87 | $(248) | $195 |

| Derivatives in cash flow 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 derivatives (ineffective portion and amount excluded from effectiveness testing) | Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3Q15 | 2Q15 | 3Q14 | | 3Q15 | 2Q15 | 3Q14 | | 3Q15 | 2Q15 | 3Q14 |
| FX contracts | $— | $— | $— | Net interest revenue | $— | $— | $(1 ) | Net interest revenue | $— | $— | $— |
| FX contracts | — | — | (5 ) | Other revenue | — | — | 1 | Other revenue | — | — | 0.2 |
| FX contracts | — | (3 ) | 29 | Trading revenue | — | (3 ) | 29 | Trading revenue | — | — | — |
| FX contracts | (3 ) | 4 | (8 ) | Salary expense | (3 ) | (8 ) | 2 | Salary expense | — | — | — |
| Total | $(3 ) | $1 | $16 | | $(3 ) | $(11 ) | $31 | | $— | $— | $0.2 |

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) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 3Q15 | 2Q15 | 3Q14 | | 3Q15 | 2Q15 | 3Q14 | | 3Q15 | 2Q15 | 3Q14 |
| FX contracts | $213 | $(255) | $308 | Net interest revenue | $1 | $— | $— | Other revenue | $— | $— | $(0.2) |

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 Nine months ended | | Location of gain or(loss) recognized in income on hedged item | Gain or (loss) recognized in hedged item Nine months ended | |
|---|---|---|---|---|---|---|
| | | Sept. 30, 2015 | Sept. 30, 2014 | | Sept. 30, 2015 | Sept. 30, 2014 |
| Interest rate contracts | Net interest revenue | $10 | $(594) | Net interest revenue | $(12) | $574 |

| Derivatives in cash flow hedging relationships | Gain or (loss) recognized in accumulated OCI on derivatives(effective portion) Nine months ended | | Location of gain or (loss) reclassified from accumulated OCI into income (effective portion) | Gain or (loss) reclassified from accumulated OCI into income (effective portion) Nine months ended | | Location of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing) | Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) Nine months ended | |
|---|---|---|---|---|---|---|---|---|
| | Sept. 30, 2015 | Sept. 30, 2014 | | Sept. 30, 2015 | Sept. 30, 2014 | | Sept. 30, 2015 | Sept. 30, 2014 |
| FX contracts | $(1) | $(2) | Net interest revenue | $(1) | $(2) | Net interest revenue | $— | $— |
| FX contracts | — | (2) | Other revenue | — | 2 | Other revenue | — | 0.1 |
| FX contracts | 9 | 26 | Trading revenue | 9 | 26 | Trading revenue | — | — |
| FX contracts | (8) | (4) | Salary expense | (19) | 8 | Salary expense | — | — |
| Total | $— | $18 | | $(11) | $34 | | $— | $ 0.1 |

| Derivatives in net investment hedging relationships | Gain or (loss) recognized in accumulated OCI on derivatives (effective portion) Nine months ended | | Location of gain or (loss) reclassified from accumulated OCI into income (effective portion) | Gain or (loss) reclassified from accumulated OCI into income (effective portion) Nine months ended | | 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) Nine months ended | |
|---|---|---|---|---|---|---|---|---|
| | Sept. 30, 2015 | Sept. 30, 2014 | | Sept. 30, 2015 | Sept. 30, 2014 | | Sept. 30, 2015 | Sept. 30, 2014 |
| FX contracts | $326 | $163 | Net interest revenue | $1 | $(1 ) | 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

Notes to Consolidated Financial Statements (continued)

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 | | | | Year-to-date | |
|---|---|---|---|---|---|
| (in millions) | 3Q15 | 2Q15 | 3Q14 | 2015 | 2014 |
| Foreign exchange | $180 | $181 | $154 | $578 | $413 |
| Other trading revenue (loss) | (1) | 6 | (1) | 17 | 6 |
| Total foreign exchange and other trading revenue | $179 | $187 | $153 | $595 | $419 |

Foreign exchange includes income from purchasing and selling foreign currencies and currency forwards, futures and options. Other trading revenue (loss) reflects results from futures and forward contracts, interest rate swaps, structured foreign currency swaps, options, equity derivatives and fixed income and equity securities.

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 15 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 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 Sept. 30, 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- | $72 | million |
| Baa2/BBB | $1,031 | million |

| | | |
|---|---|---|
| Ba1/BB+ | $2,089 | 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 Sept. 30, 2015, existing collateral arrangements would have required us to have posted an additional $265 million of collateral.

Notes to Consolidated Financial Statements (continued)

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 Sept. 30, 2015

| (in millions) | Gross assets recognized | Gross amounts offset in the balance sheet | | Net assets recognized on the balance sheet | Gross amounts not offset in the balance sheet | | |
|---|---|---|---|---|---|---|---|
| | | | | | Financial instruments | Cash collateral received | Net amount |
| Derivatives subject to netting arrangements: | | | (a) | | | | |
| Interest rate contracts | $10,435 | $8,893 | | $1,542 | $470 | $— | $1,072 |
| Foreign exchange contracts | 3,525 | 2,782 | | 743 | 27 | — | 716 |
| Equity contracts | 148 | 72 | | 76 | — | — | 76 |
| Total derivatives subject to netting arrangements | 14,108 | 11,747 | | 2,361 | 497 | — | 1,864 |
| Total derivatives not subject to netting arrangements | 2,542 | — | | 2,542 | — | — | 2,542 |
| Total derivatives | 16,650 | 11,747 | | 4,903 | 497 | — | 4,406 |
| Reverse repurchase agreements | 21,806 | 589 | (b) | 21,217 | 21,213 | — | 4 |
| Securities borrowing | 7,678 | — | | 7,678 | 7,496 | — | 182 |
| Total | $46,134 | $12,336 | | $33,798 | $29,206 | $— | $4,592 |

(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.

(b) Offsetting of reverse 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.

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 | Gross amounts not offset in the balance sheet | | |
|---|---|---|---|---|---|---|---|
| | | | | | Financial instruments | Cash collateral received | Net amount |
| Derivatives subject to netting arrangements: | | | (a) | | | | |
| 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 |
| | 21,051 | 18,347 | | 2,704 | 590 | — | 2,114 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total derivatives subject to netting arrangements | | | | | | |
| 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.

(b) Offsetting of reverse 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 Sept. 30, 2015

| (in millions) | Gross liabilities recognized | Gross amounts offset in the balance sheet | | Net liabilities recognized on the balance sheet | Gross amounts not offset in the balance sheet | | |
|---|---|---|---|---|---|---|---|
| | | | (a) | | Financial instruments | Cash collateral pledged | Net amount |
| Derivatives subject to netting arrangements: | | | | | | | |
| Interest rate contracts | $11,210 | $8,991 | | $2,219 | $2,005 | $— | $214 |
| Foreign exchange contracts | 3,093 | 2,352 | | 741 | 365 | — | 376 |
| Equity contracts | 142 | 54 | | 88 | 64 | — | 24 |
| Total derivatives subject to netting arrangements | 14,445 | 11,397 | | 3,048 | 2,434 | — | 614 |
| Total derivatives not subject to netting arrangements | 1,826 | — | | 1,826 | — | — | 1,826 |
| Total derivatives | 16,271 | 11,397 | | 4,874 | 2,434 | — | 2,440 |
| Repurchase agreements | 6,860 | 589 | (b) | 6,271 | 6,255 | — | 16 |
| Securities lending | 2,263 | — | | 2,263 | 2,221 | — | 42 |
| Total | $25,394 | $11,986 | | $13,408 | $10,910 | $— | $2,498 |

(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.

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 | Gross amounts not offset in the balance sheet | | |
|---|---|---|---|---|---|---|---|
| | | | (a) | | 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.

Notes to Consolidated Financial Statements (continued)

Secured borrowings

The following table presents the contract value of repurchase agreements and securities lending transactions accounted for as secured borrowings by the type of collateral provided to counterparties.

Repurchase agreements and securities lending transactions accounted for as secured borrowings at Sept. 30, 2015

| | Remaining contractual maturity of the agreements | | | |
|---|---|---|---|---|
| (in millions) | Overnight and continuous | Up to 30 days | 30 days or more | Total |
| Repurchase agreements: | | | | |
| U.S. Treasury | $771 | $— | $— | $771 |
| U.S. Government agencies | 330 | — | 1 | 331 |
| Agency RMBS | 4,125 | 45 | 11 | 4,181 |
| Corporate bonds | 453 | — | 700 | 1,153 |
| Other debt securities | 205 | — | 138 | 343 |
| Equity securities | 81 | — | — | 81 |
| Total | $5,965 | $45 | $850 | $6,860 |
| Securities lending: | | | | |
| U.S. Government agencies | $59 | $— | $— | $59 |
| Other debt securities | 303 | — | — | 303 |
| Equity securities | 1,901 | — | — | 1,901 |
| Total | $2,263 | $— | $— | $2,263 |
| Total borrowings | $8,228 | $45 | $850 | $9,123 |

BNY Mellon’s repurchase agreements and securities lending transactions primarily encounter risk associated with liquidity. We are required to pledge collateral based on predetermined terms within the agreements. If we were to experience a decline in the fair value of the collateral pledged for these transactions, additional collateral could be required to be provided to the counterparty; therefore, decreasing the amount of assets available for other liquidity needs that may arise. BNY Mellon also offers tri-party collateral agency services in the tri-party repo market where we are exposed to credit risk. In order to mitigate this risk, we require dealers to fully secure intraday credit.

Note 18 - 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 Sept. 30, 2015 are disclosed in the financial institutions portfolio exposure table and the commercial portfolio exposure table below.

| Financial institutions portfolio exposure (in billions) | Sept. 30, 2015 Loans | Unfunded commitments | Total exposure |
|---|---|---|---|
| Securities industry | $3.7 | $27.5 | $31.2 |
| Banks | 9.3 | 2.1 | 11.4 |
| Asset managers | 1.9 | 5.2 | 7.1 |
| Insurance | 0.2 | 4.6 | 4.8 |
| Government | 0.1 | 2.4 | 2.5 |
| Other | 0.8 | 1.7 | 2.5 |
| Total | $16.0 | $43.5 | $59.5 |

| Commercial portfolio exposure (in billions) | Sept. 30, 2015 Loans | Unfunded commitments | Total exposure |
|---|---|---|---|
| Services and other | $0.8 | $5.6 | $6.4 |
| Manufacturing | 0.5 | 5.3 | 5.8 |
| Energy and utilities | 0.5 | 5.1 | 5.6 |
| Media and telecom | 0.3 | 1.5 | 1.8 |
| Total | $2.1 | $17.5 | $19.6 |

Notes to Consolidated Financial Statements (continued)

Major concentrations in securities lending are primarily to broker-dealers and are generally collateralized with cash. Securities lending transactions are discussed below.

The following table presents a summary of our off-balance sheet credit risks, net of participations.

| Off-balance sheet credit risks (in millions) | Sept. 30, 2015 | Dec. 31, 2014 |
|---|---|---|
| Lending commitments | $60,731 | $33,273 |
| Standby letters of credit (a) | 5,020 | 5,767 |
| Commercial letters of credit | 304 | 255 |
| Securities lending indemnifications (b) | 305,538 | 304,386 |

(a) Net of participations totaling $855 million at Sept. 30, 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 $60 billion at Sept. 30, 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: $37.8 billion in less than one year, $22.6 billion in one to five years and $328 million over five years.

Standby letters of credit (“SBLC”) principally support corporate obligations and were collateralized with cash and securities of $312 million and $421 million at Sept. 30, 2015 and Dec. 31, 2014, respectively. At Sept. 30, 2015, $3.1 billion of the SBLCs will expire within one year and $1.9 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 $99 million at Sept. 30, 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 | Sept. 30, 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 $304 million at Sept. 30, 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 were secured by collateral of $318 billion at Sept. 30, 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 Sept. 30, 2015 and Dec. 31, 2014, $60 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 $63 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 Sept. 30, 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 Sept. 30, 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. 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 $450 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. The bankruptcy trustee has appealed the decision.

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 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 two lawsuits currently remain pending in Illinois federal court. 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 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 was 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. On Oct. 20, 2015, the same plaintiff filed another derivative lawsuit in Delaware state court naming BNY Mellon as a nominal defendant. 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. BNY Mellon reached settlements with the DOJ and NYAG under which it paid each of them $167.5 million and is providing 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 paid $335 million under the class action settlement, which has been

approved by the court, 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. On May 21, 2015, BNY Mellon reached a settlement in principle with the plaintiffs in the putative class action lawsuit asserting securities law violations. Under the terms of the settlement, which has been approved by the court, BNY Mellon will make a

payment of $180 million. With these settlements, BNY Mellon has effectively resolved virtually all of the currently pending FX-related actions, with the exception of several lawsuits brought by individual customers and a derivative lawsuit.

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 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 Sept. 9, 2015, the Second Circuit affirmed the Tax Court decision. BNY Mellon intends to seek review by the United States Supreme Court. See Note 11 of the Notes to Consolidated Financial Statements for additional information.

Mortgage-Securitization Trusts Proceedings

The Bank of New York Mellon has been named as a defendant in a number of legal actions brought by MBS investors alleging that the trustee has expansive duties under the governing agreements, including the duty to investigate and pursue breach of representation and warranty claims against other parties to the MBS transactions. These actions include 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 who purport to sue on behalf of 260 MBS trusts.

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 12 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, five FINRA arbitration claims brought by alleged purchasers remain pending.

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 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. On Aug. 18, 2015, the SEC announced that it had entered into an administrative settlement with BNY Mellon in which BNY Mellon agreed to pay $14.8 million to resolve this inquiry. In addition, the SEC has indicated that it is no longer pursuing any current or former BNY Mellon employees in connection with this matter.

Notes to Consolidated Financial Statements (continued)

## Note 19 - Lines of business

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. On July 31, 2015, BNY Mellon completed the sale of Meriten, a German-based investment management boutique. In the third quarter of 2015, we reclassified the results of Meriten from the Investment Management business to the Other segment. The reclassifications did not impact the consolidated results. All prior periods have been restated.

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 | • Investment management and performance fees from:<br>Mutual funds<br>Institutional clients<br>Private clients<br>High-net-worth individuals and families, endowments and foundations and related entities<br>• Distribution and servicing fees |
| Investment Services | • Asset servicing fees, including institutional trust and custody fees, broker-dealer services, global collateral services and securities lending<br>• Issuer services fees, including Corporate Trust and Depositary Receipts<br>• Clearing services fees, including broker-dealer services, registered investment advisor services and prime brokerage services<br>• Treasury services fees, including global payment services and working capital solutions<br>• Foreign exchange<br>• Credit-related activities |
| Other segment | • Leasing operations<br>• Corporate treasury activities<br>• Global markets and institutional banking services<br>• Business exits |

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.

Notes to Consolidated Financial Statements (continued)

- 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 Sept. 30, 2015 (dollar amounts in millions) | Investment Management | | Investment Services | | Other | Consolidated | |
|---|---|---|---|---|---|---|---|
| Fee and other revenue | $ 846 | (a) | $2,087 | | $103 | $ 3,036 | (a) |
| Net interest revenue | 83 | | 628 | | 48 | 759 | |
| Total revenue | 929 | (a) | 2,715 | | 151 | 3,795 | (a) |
| Provision for credit losses | — | | — | | 1 | 1 | |
| Noninterest expense | 692 | | 1,863 | | 124 | 2,679 | (b) |
| Income before taxes | $ 237 | (a) | $852 | | $26 | $ 1,115 | (a)(b) |
| Pre-tax operating margin (c) | 26 | % | 31 | % | N/M | 29 | % |
| Average assets | $ 30,960 | | $282,159 | | $60,334 | $ 373,453 | |

(a) Both total fee and other revenue and total revenue include the net loss from consolidated investment management funds of $17 million, representing $22 million of losses and a loss attributable to noncontrolling interests of $5 million. Income before taxes is net of a loss attributable to noncontrolling interests of $5 million.
(b) Includes a loss attributable to noncontrolling interest of $1 million related to other consolidated subsidiaries.
(c) Income before taxes divided by total revenue.
N/M - Not meaningful.

| For the quarter ended June 30, 2015 (dollar amounts in millions) | Investment Management | | Investment Services | | Other | Consolidated | |
|---|---|---|---|---|---|---|---|
| Fee and other revenue | $ 913 | (a) | $2,020 | | $137 | $ 3,070 | (a) |
| Net interest revenue | 78 | | 636 | | 65 | 779 | |
| Total revenue | 991 | (a) | 2,656 | | 202 | 3,849 | (a) |
| Provision for credit losses | — | | — | | (6 ) | (6 ) | |
| Noninterest expense | 728 | | 1,880 | | 118 | 2,726 | (b) |
| Income before taxes | $ 263 | (a) | $776 | | $90 | $ 1,129 | (a)(b) |
| Pre-tax operating margin (c) | 27 | % | 29 | % | N/M | 29 | % |
| Average assets | $ 30,414 | | $290,102 | | $57,763 | $ 378,279 | |

(a)

Both total fee and other revenue and total revenue include the net income from consolidated investment management funds of $3 million, representing $40 million of income and noncontrolling interests of $37 million. Income before taxes is net of noncontrolling interests of $37 million.

(b) Includes a loss attributable to noncontrolling interest of $1 million related to other consolidated subsidiaries.

(c) Income before taxes divided by total revenue.

N/M - Not meaningful.

Notes to Consolidated Financial Statements (continued)

| For the quarter ended Sept. 30, 2014 (dollar amounts in millions) | Investment Management | | Investment Services | Other | Consolidated | |
|---|---|---|---|---|---|---|
| Fee and other revenue | $ 920 | (a) | $2,005 | $942 | $ 3,867 | (a) |
| Net interest revenue | 69 | | 583 | 69 | 721 | |
| Total revenue | 989 | (a) | 2,588 | 1,011 | 4,588 | (a) |
| Provision for credit losses | — | | — | (19) | (19) | |
| Noninterest expense | 744 | | 1,875 | 349 | 2,968 | |
| Income before taxes | $ 245 | (a) | $713 | $681 | $ 1,639 | (a) |
| Pre-tax operating margin (b) | 25% | | 28% | N/M | 36% | |
| Average assets | $ 36,542 | | $266,466 | $77,401 | $ 380,409 | |

(a) Both total fee and other revenue and total revenue include the net income from consolidated investment management funds of $16 million, representing $39 million of income and noncontrolling interests of $23 million. Income before taxes is net of noncontrolling interests of $23 million.
(b) Income before taxes divided by total revenue.
N/M - Not meaningful.

| For the nine months ended Sept. 30, 2015 (dollar amounts in millions) | Investment Management | | Investment Services | Other | Consolidated | |
|---|---|---|---|---|---|---|
| Fee and other revenue | $ 2,682 | (a) | $6,100 | $357 | $ 9,139 | (a) |
| Net interest revenue | 235 | | 1,863 | 168 | 2,266 | |
| Total revenue | 2,917 | (a) | 7,963 | 525 | 11,405 | (a) |
| Provision for credit losses | — | | — | (3) | (3) | |
| Noninterest expense | 2,154 | | 5,578 | 373 | 8,105 | (b) |
| Income before taxes | $ 763 | (a) | $2,385 | $155 | $ 3,303 | (a)(b) |
| Pre-tax operating margin (c) | 26% | | 30% | N/M | 29% | |
| Average assets | $ 30,910 | | $285,747 | $56,743 | $ 373,400 | |

(a) Both total fee and other revenue and total revenue include the net income from consolidated investment management funds of $7 million, representing $70 million of income and noncontrolling interests of $63 million. Income before taxes is net of noncontrolling interests of $63 million.
(b) Includes a loss attributable to noncontrolling interest of $2 million related to other consolidated subsidiaries.
(c) Income before taxes divided by total revenue.
N/M - Not meaningful.

| For the nine months ended Sept. 30, 2014 (dollar amounts in millions) | Investment Management | | Investment Services | Other | Consolidated | |
|---|---|---|---|---|---|---|
| Fee and other revenue | $ 2,760 | (a) | $5,811 | $1,204 | $ 9,775 | (a) |
| Net interest revenue | 205 | | 1,766 | 197 | 2,168 | |
| Total revenue | 2,965 | (a) | 7,577 | 1,401 | 11,943 | (a) |
| Provision for credit losses | — | | — | (49) | (49) | |
| Noninterest expense | 2,304 | | 5,564 | 785 | 8,653 | |
| Income before taxes | $ 661 | (a) | $2,013 | $665 | $ 3,339 | (a) |
| Pre-tax operating margin (b) | 22% | | 27% | N/M | 28% | |
| Average assets | $ 37,821 | | $263,084 | $67,392 | $ 368,297 | |

(a) Both total fee and other revenue and total revenue include net income from consolidated investment management funds of $61 million, representing $121 million of income and noncontrolling interests of $60 million. Income before taxes is net of noncontrolling interests of $60 million.

(b) Income before taxes divided by total revenue.
N/M - Not meaningful.

## Note 20 - 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 | Nine months ended Sept. 30, | |
|---|---|---|
| (in millions) | 2015 | 2014 |
| Transfers from loans to other assets for other real estate owned (“OREO”) | $6 | $3 |
| Change in assets of consolidated VIEs | 6,985 | 1,710 |
| Change in liabilities of consolidated VIEs | 6,506 | 1,991 |
| Change in noncontrolling interests of consolidated VIEs | 251 | 118 |
| Securities purchased not settled | 222 | 578 |
| Securities sales not settled | 676 | 63 |
| Available-for-sale securities transferred to held-to-maturity | 11,602 | — |

## 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 third 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, liquidity and capital condition, results of operations, goals, strategies, outlook, objectives, expectations (including those regarding our performance results, regulatory, market, economic or accounting developments, legal proceedings and other contingencies), effective tax rate, 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," "beli "goal," "could," "should," "would," "may," "will," "strategy," "synergies," "opportunities," "trends" and words of similar mea 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 our 2014 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.

Part II - Other Information

Item 1. Legal Proceedings

The information required by this Item is set forth in the “Legal proceedings” section in Note 18 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

(c) The following table discloses repurchases of our common stock made in the third quarter of 2015. All of the 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 - third 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 Sept. 30, 2015 | |
|---|---|---|---|---|---|
| July 2015 | 7,090 | $ 43.68 | 7,090 | $ 1,958 | |
| August 2015 | 8,715 | 43.49 | 8,715 | 1,579 | |
| September 2015 | 16 | 38.92 | 16 | 1,578 | |
| Third quarter of 2015 (a) | 15,821 | 43.57 | 15,821 | 1,532 | (b) |

(a) Includes 88 thousand shares repurchased at a purchase price of $4 million from employees, primarily in connection with the employees’ payment of taxes upon the vesting of restricted stock. The average price per share of open market purchases was $43.58.

(b) Represents the maximum value of the shares authorized to be repurchased through the second quarter of 2016, including employee benefit plan repurchases, in connection with the Federal Reserve’s non-objection to our 2015 capital plan.

On March 11, 2015, in connection with the Federal Reserve’s non-objection to our 2015 capital plan, BNY Mellon announced a stock purchase program providing for the repurchase of an aggregate of $3.1 billion of common stock, of which $700 million was contingent on a prior issuance of $1 billion of qualifying preferred stock. The Company completed the issuance of preferred stock on April 28, 2015. The 2015 capital plan began 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 123 hereof, under "Index to Exhibits," which is incorporated herein by reference.

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: November 6, 2015 | By: | /s/ Kurtis R. Kurimsky<br>Kurtis R. Kurimsky<br>Corporate Controller<br>(Duly Authorized Officer and<br>Principal Accounting Officer of<br>the Registrant) |
|---|---|---|

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 Oct. 13, 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 Oct. 19, 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 Sept. 30, 2015. The Company hereby agrees to furnish to the Commission, upon request, a copy of any such instrument.

Index to Exhibits (continued)

| Exhibit No. | | Description | Method of Filing |
|---|---|---|---|
| 10.1 | * | 2015 Form of Performance Share Unit Agreement. | Filed herewith. |
| 10.2 | * | 2015 Form of Restricted Share Unit Agreement. | Filed herewith. |
| 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. |

* Management contract or compensatory plan arrangement.