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Bank of New York Mellon Corp
Form 10-Q
August 03, 2017

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2017

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 (I.R.S. Employer Identification No.)
incorporation or organization)

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 No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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 June 30, 2017
Common Stock, \$0.01 par value	1,033,156,201

THE BANK OF NEW YORK MELLON CORPORATION

Second Quarter 2017 Form 10-Q
Table of Contents

	Page
<u>Consolidated Financial Highlights (unaudited)</u>	<u>2</u>
Part I - Financial Information	
Items 2. and 3. Management’s Discussion and Analysis of Financial Condition and Results of Operations; Quantitative and Qualitative Disclosures about Market Risk:	
<u>General</u>	<u>4</u>
<u>Overview</u>	<u>4</u>
Key second quarter 2017 and subsequent events	<u>4</u>
Highlights of second quarter 2017 results	<u>5</u>
<u>Fee and other revenue</u>	<u>7</u>
<u>Net interest revenue</u>	<u>10</u>
<u>Average balances and interest rates</u>	<u>11</u>
<u>Noninterest expense</u>	<u>13</u>
<u>Income taxes</u>	<u>14</u>
<u>Review of businesses</u>	<u>14</u>
<u>Critical accounting estimates</u>	<u>23</u>
<u>Consolidated balance sheet review</u>	<u>25</u>
<u>Liquidity and dividends</u>	<u>35</u>
<u>Capital</u>	<u>40</u>
<u>Trading activities and risk management</u>	<u>47</u>
<u>Asset/liability management</u>	<u>50</u>
<u>Off-balance sheet arrangements</u>	<u>51</u>
<u>Supplemental information - Explanation of GAAP and Non-GAAP financial measures</u>	<u>52</u>
<u>Recent accounting and regulatory developments</u>	<u>56</u>
<u>Website information</u>	<u>59</u>
Item 1. Financial Statements:	
<u>Consolidated Income Statement (unaudited)</u>	<u>60</u>
<u>Consolidated Comprehensive Income Statement (unaudited)</u>	<u>62</u>
<u>Consolidated Balance Sheet (unaudited)</u>	<u>63</u>
<u>Consolidated Statement of Cash Flows (unaudited)</u>	<u>64</u>
<u>Consolidated Statement of Changes in Equity (unaudited)</u>	<u>65</u>
	Page
Notes to Consolidated Financial Statements:	
<u>Note 1—Basis of presentation</u>	<u>66</u>
<u>Note 2—Accounting change and new accounting guidance</u>	<u>66</u>
<u>Note 3—Acquisitions</u>	<u>67</u>
<u>Note 4—Securities</u>	<u>67</u>
<u>Note 5—Loans and asset quality</u>	<u>72</u>
<u>Note 6—Goodwill and intangible assets</u>	<u>78</u>
<u>Note 7—Other assets</u>	<u>80</u>
<u>Note 8—Net interest revenue</u>	<u>81</u>

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<u>Note 9—Employee benefit plans</u>	<u>81</u>
<u>Note 10—Income taxes</u>	<u>82</u>
<u>Note 11—Variable interest entities and securitization</u>	<u>82</u>
<u>Note 12—Preferred stock</u>	<u>84</u>
<u>Note 13—Other comprehensive income (loss)</u>	<u>85</u>
<u>Note 14—Fair value measurement</u>	<u>86</u>
<u>Note 15—Fair value option</u>	<u>93</u>
<u>Note 16—Derivative instruments</u>	<u>93</u>
<u>Note 17—Commitments and contingent liabilities</u>	<u>101</u>
<u>Note 18—Lines of business</u>	<u>108</u>
<u>Note 19—Supplemental information to the Consolidated Statement of Cash Flows</u>	<u>111</u>
<u>Item 4. Controls and Procedures</u>	<u>112</u>
<u>Forward-looking Statements</u>	<u>113</u>
Part II - Other Information	
<u>Item 1. Legal Proceedings</u>	<u>115</u>
<u>Item 1A. Risk Factors</u>	<u>115</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>117</u>
<u>Item 6. Exhibits</u>	<u>117</u>
<u>Signature</u>	<u>118</u>
<u>Index to Exhibits</u>	<u>119</u>

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			Year-to-date		
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016	
Results applicable to common shareholders of The Bank of New York Mellon Corporation:						
Net income	\$926	\$880	\$825	\$1,806	\$1,629	
Basic earnings per share	0.88	0.83	0.76	1.71	1.49	
Diluted earnings per share	0.88	0.83	0.75	1.70	1.48	
Fee and other revenue	\$3,120	\$3,018	\$2,999	\$6,138	\$5,969	
Income from consolidated investment management funds	10	33	10	43	4	
Net interest revenue	826	792	767	1,618	1,533	
Total revenue	\$3,956	\$3,843	\$3,776	\$7,799	\$7,506	
Return on common equity (annualized) (a)	10.4	% 10.2	% 9.3	% 10.3	% 9.2	%
Adjusted return on common equity (annualized) – Non-GAAP (a)(b)	10.8	% 10.7	% 9.7	% 10.8	% 9.7	%
Return on tangible common equity (annualized) – Non-GAAP (a)(c)	21.9	% 22.2	% 20.4	% 22.1	% 20.5	%
Adjusted return on tangible common equity (annualized) – Non-GAAP (a)(b)(c)	22.1	% 22.4	% 20.5	% 22.2	% 20.7	%
Return on average assets (annualized)	1.09	% 1.06	% 0.89	% 1.07	% 0.89	%
Fee revenue as a percentage of total revenue	79	% 78	% 79	% 79	% 79	%
Percentage of non-U.S. total revenue	35	% 34	% 34	% 34	% 33	%
Pre-tax operating margin (a)	33	% 31	% 31	% 32	% 30	%
Adjusted pre-tax operating margin – Non-GAAP (a)(b)	35	% 33	% 33	% 34	% 32	%
Net interest margin	1.14	% 1.13	% 0.97	% 1.14	% 0.98	%
Net interest margin on a fully taxable equivalent (“FTE”) basis – Non-GAAP (d)	1.16	% 1.14	% 0.98	% 1.15	% 1.00	%
Assets under management (“AUM”) at period end (in billions) (e)	\$1,771	\$1,727	\$1,664	\$1,771	\$1,664	
Assets under custody and/or administration (“AUC/A”) at period end (in trillions) (f)	\$31.1	\$30.6	\$29.5	\$31.1	\$29.5	
Market value of securities on loan at period end (in billions) (g)	\$336	\$314	\$278	\$336	\$278	
Average common shares and equivalents outstanding (in thousands):						
Basic	1,035,829	1,041,158	1,072,583	1,038,479	1,076,112	

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Diluted	1,041,879	1,047,746	1,078,271	1,044,809	1,081,847	
Selected average balances:						
Interest-earning assets	\$289,496	\$283,421	\$318,433	\$286,475	\$314,556	
Assets of operations	\$341,607	\$335,080	\$372,974	\$338,362	\$368,110	
Total assets	\$342,515	\$336,200	\$374,220	\$339,375	\$369,387	
Interest-bearing deposits	\$142,336	\$139,820	\$165,122	\$141,084	\$163,569	
Long-term debt	\$27,398	\$25,882	\$22,838	\$26,644	\$22,197	
Noninterest-bearing deposits	\$73,886	\$73,555	\$84,033	\$73,721	\$83,489	
Preferred stock	\$3,542	\$3,542	\$2,552	\$3,542	\$2,552	
Total The Bank of New York Mellon Corporation common shareholders' equity	\$35,862	\$34,965	\$35,827	\$35,416	\$35,539	
Other information at period end:						
Cash dividends per common share	\$0.19	\$0.19	\$0.17	\$0.38	\$0.34	
Common dividend payout ratio	22	%23	%23	%22	%23	%
Common dividend yield (annualized)	1.5	%1.6	%1.8	%1.5	%1.8	%
Closing stock price per common share	\$51.02	\$47.23	\$38.85	\$51.02	\$38.85	
Market capitalization	\$52,712	\$49,113	\$41,479	\$52,712	\$41,479	
Book value per common share (a)	\$35.26	\$34.23	\$33.72	\$35.26	\$33.72	
Tangible book value per common share – Non-GAAP (a)(c)	\$17.53	\$16.65	\$16.25	\$17.53	\$16.25	
Full-time employees	52,800	52,600	52,200	52,800	52,200	
Common shares outstanding (in thousands)	1,033,156	1,039,877	1,067,674	1,033,156	1,067,674	

2 BNY Mellon

Consolidated Financial Highlights (unaudited) (continued)

	June 30, 2017	March 31, 2017	Dec. 31, 2016	
Regulatory ratios				
Average liquidity coverage ratio ("LCR") (h)	116	% 117	% 114	%
Consolidated regulatory capital ratios: (i)				
Standardized:				
Common equity Tier 1 ("CET1") ratio	12.0	% 12.0	% 12.3	%
Tier 1 capital ratio	14.3	14.4	14.5	
Total (Tier 1 plus Tier 2) capital ratio	14.8	14.9	15.2	
Advanced:				
CET1 ratio	10.8	10.4	10.6	
Tier 1 capital ratio	12.9	12.5	12.6	
Total (Tier 1 plus Tier 2) capital ratio	13.2	12.8	13.0	
Leverage capital ratio (i)	6.7	6.6	6.6	
Supplementary leverage ratio ("SLR") (i)	6.2	6.1	6.0	
BNY Mellon shareholders' equity to total assets ratio – GAAP	11.3	11.6	11.6	
BNY Mellon common shareholders' equity to total assets ratio – GAAP	10.3	10.5	10.6	
Selected regulatory capital ratios – fully phased-in – Non-GAAP: (j)				
Estimated CET1 ratio:				
Standardized Approach	11.5	% 11.5	% 11.3	%
Advanced Approach	10.4	10.0	9.7	
Estimated SLR	6.0	5.9	5.6	

(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 information for all periods presented excludes the amortization of intangible assets and M&I, litigation and restructuring charges. Pre-tax operating margin (Non-GAAP) also excludes the net income attributable to noncontrolling interests of consolidated investment management funds.

(c) Tangible common equity – Non-GAAP and tangible book value per common share – Non-GAAP exclude goodwill and intangible assets, net of deferred tax liabilities. See "Supplemental information – Explanation of GAAP and Non-GAAP financial measures" beginning on page 52 for the reconciliation of Non-GAAP measures.

(d) See "Average balances and interest rates" on page 11 for a reconciliation of Non-GAAP measures.

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

(f) Includes the AUC/A of CIBC Mellon Global Securities Services Company ("CIBC Mellon"), a joint venture with the Canadian Imperial Bank of Commerce, of \$1.2 trillion at June 30, 2017 and March 31, 2017 and \$1.1 trillion at June 30, 2016.

(g) Represents the total amount of securities on loan in our agency securities lending program managed by the Investment Services business. Excludes securities for which BNY Mellon acts as an agent on behalf of CIBC Mellon clients, which totaled \$66 billion at June 30, 2017, \$65 billion at March 31, 2017 and \$56 billion at June 30, 2016.

(h) For additional information on our LCR, see "Liquidity and dividends" beginning on page 35.

(i) For our CET1, Tier 1 capital and Total capital ratios, our effective capital ratios under U.S. capital rules are the lower of the ratios as calculated under the Standardized and Advanced Approaches. The leverage capital ratio is based on Tier I capital, as phased-in, and quarterly average total assets. The SLR is based on Tier 1 capital, as phased-in, and average quarterly assets and certain off-balance sheet exposures. For additional information on our

capital ratios, see “Capital” beginning on page 40.

The estimated fully phased-in CET1 and SLR ratios (Non-GAAP) are based on our interpretation of the U.S. capital (j) 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 40.

BNY Mellon 3

Part I - Financial Information

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

General

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

Certain business terms used in this report are defined in the Glossary included in our Annual Report on Form 10-K for the year ended Dec. 31, 2016 (“2016 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 or because they provide additional information about our ability to meet fully phased-in capital requirements. 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. See “Net interest revenue,” including the “Average balances and interest rates” beginning on page 10 for information on measures presented on a fully taxable equivalent basis. Also see “Capital” beginning on page 40 for information on our fully phased-in capital requirements.

Overview

The Bank of New York Mellon Corporation was the first company listed on the New York Stock Exchange (NYSE: BK). With a rich history of maintaining our financial strength and stability through all business cycles, BNY Mellon is a global investments company dedicated to improving lives through investing.

We manage and service assets for financial institutions, corporations and individual investors in 35 countries and more than 100 markets. As of June 30, 2017, BNY Mellon had \$31.1 trillion in assets under custody and/or administration (“AUC/A”), and \$1.8 trillion in assets under management (“AUM”).

BNY Mellon is focused on enhancing our clients' experience by leveraging our scale and expertise to deliver innovative and strategic solutions for our clients, and building trusted relationships that drive value. We hold a unique position in the global financial services industry. We service both the buy-side and sell-side, providing us with distinctive marketplace insights that enable us to support our clients' success.

BNY Mellon's businesses benefit from global growth in financial assets, the globalization of the investment process, changes in demographics and the continued evolution of the regulatory landscape—each providing us with opportunities

to advise and service clients.

Key second quarter 2017 and subsequent events

Charles W. Scharf named chief executive officer; Gerald L. Hassell, chairman, to retire

In July 2017, Charles W. Scharf was appointed chief executive officer and member of the board of directors of the Company. Mr. Scharf succeeds Gerald L. Hassell, who will continue as the Company's chairman of the board of directors until his retirement at the end of the year. After Mr. Hassell's retirement, Mr. Scharf will become chairman, effective Jan. 1, 2018.

4 BNY Mellon

Resolution plan

As required by the Dodd-Frank Act, BNY Mellon must submit annually to the Board of Governors of the Federal Reserve System (“Federal Reserve”) and the Federal Deposit Insurance Corporation (“FDIC”) a plan for its rapid and orderly resolution in the event of material financial distress or failure. BNY Mellon filed its 2017 resolution plan on July 1, 2017. We believe the 2017 resolution plan addresses all shortcomings and deficiencies identified by the FDIC and the Federal Reserve in the Company’s 2015 resolution plan. The public portion of our resolution plan is available on the Federal Reserve’s and FDIC’s websites.

Capital plan, share repurchase program and increase in cash dividend on common stock

In June 2017, BNY Mellon received confirmation that the Federal Reserve did not object to our 2017 capital plan submitted in connection with its Comprehensive Capital Analysis and Review (“CCAR”). Our board of directors subsequently approved the repurchase of up to \$2.6 billion of common stock and up to an additional \$500 million of common stock contingent on a prior issuance of \$500 million of noncumulative perpetual preferred stock starting in the third quarter of 2017 and continuing through the second quarter of 2018.

Additionally, in July 2017, the board of directors approved a 26% increase in the quarterly cash dividend on common stock, which was also included in the 2017 capital plan, from \$0.19 to \$0.24 per share. This increased quarterly cash dividend will be paid on Aug. 11, 2017.

Established BNY Mellon Government Securities Services Corp.

In the second quarter of 2017, BNY Mellon established BNY Mellon Government Securities Services Corp. (“GSS Corp.”) a U.S.-based wholly-owned operating subsidiary that houses the operations and technology supporting our U.S. government securities clearing and settlement and U.S. tri-party repo clearing and settlement services. The board of directors of GSS Corp. provides oversight of business affairs, operational risk and performance, as well as direction on strategic initiatives to drive industry-leading practices and processes. The board currently consists of seven members, including three highly

accomplished industry veterans as independent members.

Established intermediate holding company

In connection with our single point of entry resolution strategy, we have established BNY Mellon IHC, LLC, a wholly-owned direct subsidiary of the Parent, (the “IHC”), to facilitate the provision of capital and liquidity resources to certain key subsidiaries in the event of material financial distress or failure. In the second quarter of 2017, we entered into a binding support agreement that requires the IHC to provide that support. See “Liquidity and dividends” beginning on page 35 for additional information.

Highlights of second quarter 2017 results

We reported net income applicable to common shareholders of \$926 million, or \$0.88 per diluted common share, in the second quarter of 2017. Net income applicable to common shareholders was \$825 million, or \$0.75 per diluted common share, in the second quarter of 2016 and \$880 million, or \$0.83 per diluted common share, in the first quarter of 2017.

Highlights of the second quarter of 2017 include:

-

AUC/A totaled a record \$31.1 trillion at June 30, 2017 compared with \$29.5 trillion at June 30, 2016. The 5% increase primarily reflects higher market values. (See “Investment Services business” beginning on page 19.) AUM totaled \$1.77 trillion at June 30, 2017 compared with \$1.66 trillion at June 30, 2016. The 6% increase primarily reflects higher market values and net inflows, partially offset by the unfavorable impact of a stronger U.S. dollar (principally versus the British pound). AUM excludes securities lending cash management assets and assets managed in the Investment Services business. (See “Investment Management business” beginning on page 16.) Investment services fees totaled \$1.86 billion, an increase of 4% compared with \$1.79 billion in the second quarter of 2016. The increase primarily reflects growth in clearing services fees, net new business, including collateral management solutions, and higher equity market values, partially offset by the unfavorable impact of a stronger U.S. dollar. (See “Investment Services business” beginning on page 19.)

BNY Mellon 5

Investment management and performance fees totaled \$879 million, an increase of 6% compared with \$830 million in the second quarter of 2016. The increase primarily reflects higher market values, money market fees and performance fees, partially offset by the unfavorable impact of a stronger U.S. dollar (principally versus the British pound). (See “Investment Management business” beginning on page 16.)

Foreign exchange and other trading revenue totaled \$165 million compared with \$182 million in the second quarter of 2016. Foreign exchange revenue totaled \$151 million, a decrease of 9% compared with \$166 million in the second quarter of 2016, primarily reflecting lower volatility, partially offset by higher volumes. (See “Fee and other revenue” beginning on page 7.)

Investment and other income totaled \$122 million compared with \$74 million in the second quarter of 2016. The increase primarily reflects lease-related gains. (See “Fee and other revenue” beginning on page 7.)

Net interest revenue totaled \$826 million compared with \$767 million in the second quarter of 2016. The 8% increase was primarily driven by higher interest rates and lower premium amortization, partially offset by lower interest-earning assets and higher average long-term debt. Net interest margin was 1.14% in the second quarter of 2017 compared with 0.97% in the second quarter of 2016 and net interest margin (FTE) (Non-GAAP) was 1.16% in the second quarter of 2017 compared with 0.98% in the second quarter of 2016. (See “Net interest revenue” on page 10.)

The provision for credit losses was a credit of \$7 million in the second quarter of 2017 and a credit of \$9 million in the second quarter of 2016. (See “Asset quality and allowance for credit losses” beginning on page 31.)

Noninterest expense totaled \$2.66 billion compared with \$2.62 billion in the second quarter of 2016. The increase reflects higher professional, legal and other purchased services (related to regulatory and compliance costs, including the 2017 resolution plan), software and litigation expenses, partially offset by the favorable impact of a stronger U.S. dollar and lower net occupancy expense. (See “Noninterest expense” beginning on page 13.)

The provision for income taxes was \$332 million and the effective rate was 25.4% in the second quarter of 2017 compared with an income tax provision of \$290 million and an effective tax rate of 24.9% in the second quarter of 2016. (See “Income taxes” on page 14.)

The net unrealized pre-tax gain on the total investment securities portfolio was \$151 million at June 30, 2017 compared with a pre-tax loss of \$23 million at March 31, 2017. The net unrealized pre-tax gain was primarily driven by a decrease in market interest rates. (See “Investment securities” beginning on page 26.)

Our CET1 ratio under the Advanced Approach was 10.8% at June 30, 2017 and 10.4% at March 31, 2017. The increase was primarily driven by CET1 generation. Our CET1 ratio under the Standardized Approach was 12.0% at both June 30, 2017 and March 31, 2017. (See “Capital” beginning on page 40.)

Our estimated CET1 ratio (Non-GAAP) calculated under the Advanced Approach on a fully phased-in basis was 10.4% at June 30, 2017 and 10.0% at March 31, 2017. The increase primarily reflects CET1 generation. Our estimated CET1 ratio (Non-GAAP) calculated under the Standardized Approach on a fully phased-in basis was 11.5% at both June 30, 2017 and March 31, 2017. (See “Capital” beginning on page 40.)

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Fee and other revenue

Fee and other revenue	2Q17 vs.						YTD17 vs.		
(dollars in millions, unless otherwise noted)	2Q17	1Q17	2Q16	1Q17	2Q16	YTD17	YTD16	YTD16	
Investment services fees:									
Asset servicing (a)	\$1,085	\$1,063	\$1,069	2	%1	% \$2,148	\$2,109	2	%
Clearing services	394	376	350	5	13	770	700	10	
Issuer services	241	251	234	(4)	) 3	492	478	3	
Treasury services	140	139	139	1	1	279	270	3	
Total investment services fees	1,860	1,829	1,792	2	4	3,689	3,557	4	
Investment management and performance fees	879	842	830	4	6	1,721	1,642	5	
Foreign exchange and other trading revenue	165	164	182	1	(9)	) 329	357	(8))
Financing-related fees	53	55	57	(4)	) (7)	) 108	111	(3))
Distribution and servicing	41	41	43	—	(5)	) 82	82	—	
Investment and other income	122	77	74	N/M	N/M	199	179	N/M	
Total fee revenue	3,120	3,008	2,978	4	5	6,128	5,928	3	
Net securities gains	—	10	21	N/M	N/M	10	41	N/M	
Total fee and other revenue	\$3,120	\$3,018	\$2,999	3	%4	% \$6,138	\$5,969	3	%
Fee revenue as a percentage of total revenue	79	%78	%79	%		79	%79	%	

AUM at period end (in billions) (b)	\$1,771	\$1,727	\$1,664	3	%6	% \$1,771	\$1,664	6	%
AUC/A at period end (in trillions) (c)	\$31.1	\$30.6	\$29.5	2	%5	% \$31.1	\$29.5	5	%

(a) Asset servicing fees include securities lending revenue of \$48 million in the second quarter of 2017, \$49 million in the first quarter of 2017 and \$52 million in the second quarter of 2016.

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

(c) Includes the AUC/A of CIBC Mellon of \$1.2 trillion at June 30, 2017 and March 31, 2017 and \$1.1 trillion at June 30, 2016.

N/M - Not meaningful.

Fee and other revenue increased 4% compared with the second quarter of 2016 and 3% (unannualized) compared with the first quarter of 2017. Both increases primarily reflect higher investment management and performance fees, investment and other income and clearing services fees. The increase compared with the second quarter of 2016 was partially offset by lower foreign exchange and other trading revenue.

Investment services fees

Investment services fees were impacted by the following compared with the second quarter of 2016 and the first quarter of 2017:

Asset servicing fees increased 1% compared with the second quarter of 2016 and 2% (unannualized) compared with the first quarter of 2017. Both increases primarily reflect net new business, including growth of collateral management solutions, and higher equity market values. The increase compared with the second quarter of 2016 was partially offset by the unfavorable impact of a stronger U.S. dollar and

the impact of downsizing the retail UK transfer agency business.

Clearing services fees increased 13% compared with the second quarter of 2016 and 5% (unannualized) compared with the first quarter of 2017. Both increases were primarily driven by higher money market fees and growth in long-term mutual fund assets.

- Issuer services fees increased 3% compared with the second quarter of 2016 and decreased 4% (unannualized) compared with the first quarter of 2017. The increase primarily reflects higher Depository Receipts revenue.

The decrease primarily reflects seasonality in Depository Receipts revenue.

Treasury services fees increased 1% compared with both the second quarter of 2016 and first quarter of 2017. Both increases primarily reflect higher payment volumes, partially offset by higher compensating balance credits provided to clients, which reduces fee revenue and increases net interest revenue.

BNY Mellon 7

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

Investment management and performance fees

Investment management and performance fees increased 6% compared with the second quarter of 2016 and 4% (unannualized) compared with the first quarter of 2017. Both increases primarily reflect higher market values, money market fees and performance fees. The increase compared with the second quarter of 2016 was partially offset by the unfavorable impact of a stronger U.S. dollar (principally versus the British pound). On a constant currency basis, investment management and performance fees increased 9% (Non-GAAP) compared with the second quarter of 2016. Performance fees were \$17 million in the second quarter of 2017, \$9 million in the second quarter of 2016 and \$12 million in the first quarter of 2017.

Total AUM for the Investment Management business increased 6% compared with June 30, 2016 and 3% compared with March 31, 2017. The increase compared with June 30, 2016 primarily reflects higher market values and net inflows, partially offset by the unfavorable impact of a stronger U.S. dollar (principally versus the British pound). The increase compared with March 31, 2017 primarily reflects the favorable impact of the weaker U.S. dollar (principally versus the British pound) and net inflows. Net long-term inflows of \$3 billion in the second quarter of 2017 primarily reflect inflows of liability-driven and fixed income investments, partially offset by outflows of index investments. Net short-term inflows of \$11 billion in the second quarter of 2017 were a result of increased distribution through our liquidity portals.

See the “Investment Management business” in “Review of businesses” for additional details regarding the drivers of investment management and performance fees.

Foreign exchange and other trading revenue

Foreign exchange and other trading revenue

(in millions)	2Q17	1Q17	2Q16	YTD17	YTD16
Foreign exchange	\$ 151	\$ 154	\$ 166	\$ 305	\$ 337
Other trading revenue	14	10	16	24	20
Total foreign exchange and other trading revenue	\$ 165	\$ 164	\$ 182	\$ 329	\$ 357

Foreign exchange and other trading revenue decreased 9% compared with the second quarter of 2016 and increased 1% (unannualized) compared with the first quarter of 2017.

Foreign exchange revenue is primarily driven by the volume of client transactions and the spread realized on these transactions, both of which are impacted by market volatility, and the impact of foreign currency hedging activities. Foreign exchange revenue decreased 9% compared with the second quarter of 2016 and 2% (unannualized) compared with the first quarter of 2017. Both decreases primarily reflect lower volatility, partially offset by higher volumes.

Foreign exchange revenue is primarily reported in the Investment Services business and, to a lesser extent, the Investment Management business and the Other segment.

Our custody clients may enter into foreign exchange transactions in a number of ways, including through our standing instruction programs. While the shift of custody clients from our standing instruction programs to other trading options has recently abated, our foreign exchange revenue continues to be impacted by changes in volume and volatility. For the quarter ended June 30, 2017, our total revenue for all types of foreign exchange trading transactions was \$151 million, or 4% of our total revenue, and approximately 29% of our foreign exchange revenue was generated by transactions in our standing instruction programs.

Financing-related fees

Financing-related fees, which are primarily reported in the Investment Services business and the Other segment, include capital markets fees, loan commitment fees and credit-related fees. Financing-related fees decreased compared with both the second quarter of 2016 and first quarter of 2017, primarily reflecting lower underwriting fees.

Distribution and servicing fees

Distribution and servicing fees decreased compared with the second quarter of 2016 primarily reflecting fees paid to introducing brokers, partially offset by higher money market fees.

8 BNY Mellon

Investment and other income

Investment and other income

(in millions)	2Q17	1Q17	2Q16	YTD17	YTD16
Corporate/bank-owned life insurance	\$43	\$ 30	\$31	\$ 73	\$ 62
Lease-related gains	51	1	—	52	44
Equity investment income (loss)	7	26	(4)	33	(7)
Expense reimbursements from joint venture	17	14	17	31	34
Seed capital gains (a)	10	9	11	19	22
Asset-related (losses) gains	(5)	3	1	(2)	1
Other (loss) income	(1)	(6)	18	(7)	23
Total investment and other income	\$122	\$ 77	\$ 74	\$ 199	\$ 179

Excludes the gains (losses) on seed capital investments in consolidated investment management funds which are reflected in operations of consolidated investment management funds, net of noncontrolling interests. The gains on (a) seed capital investments in consolidated investment management funds were \$7 million in the second quarter of 2017, \$15 million in the first quarter of 2017, \$6 million in the second quarter of 2016, \$22 million in the first six months of 2017 and \$7 million in the first six months of 2016.

Investment and other income increased compared with both the second quarter of 2016 and first quarter of 2017, primarily reflecting lease-related gains and higher income from corporate/bank-owned life insurance. The increase compared with the second quarter of 2016 was partially offset by the negative impact of foreign exchange translation and lower other income driven by losses on our investments in renewable energy. The pre-tax losses on the

renewable energy investments are offset by corresponding tax benefits and credits recorded as a reduction to the provision for income taxes. The increase in investment and other income compared with the first quarter of 2017 was partially offset by a net gain related to an equity investment recorded in the first quarter of 2017.

Year-to-date 2017 compared with year-to-date 2016

Fee and other revenue increased 3% in the first six months of 2017 compared with the first six months of 2016, primarily reflecting higher investment management and performance fees, clearing services fees and asset servicing fees, partially offset by lower net securities gains and foreign exchange and other trading revenue. The 5% increase in investment management and performance fees primarily reflects higher market values and performance fees, partially offset by the unfavorable impact of a stronger U.S. dollar (principally versus the British pound). The 10% increase in clearing services fees primarily reflects higher money market fees and growth in long-term mutual fund assets. The 2% increase in asset servicing fees primarily reflects net new business, including growth of collateral management solutions and higher equity market values, partially offset by the unfavorable impact of a stronger U.S. dollar and the impact of downsizing the retail UK transfer agency business. The 8% decrease in foreign exchange and other trading revenue primarily reflects lower volatility.

Net interest revenue

Net interest revenue								YTD17	
(dollars in millions)	2Q17	1Q17	2Q16	2Q17 vs.		YTD17	YTD16	vs.	YTD16
				1Q17	2Q16			YTD16	
Net interest revenue	\$826	\$792	\$767	4%	8%	\$1,618	\$1,533	6%	
Tax equivalent adjustment	12	12	13	N/M	N/M	24	27	N/M	
Net interest revenue (FTE) – Non-GAAP (a)	\$838	\$804	\$780	4%	7%	\$1,642	\$1,560	5%	
Average interest-earning assets	\$289,496	\$283,421	\$318,433	2%	(9)%	\$286,475	\$314,556	(9)%	
Net interest margin	1.14	%1.13	%0.97	%1	bps 17	bps 1.14	%0.98	%16	bps
Net interest margin (FTE) – Non-GAAP (a)	1.16	%1.14	%0.98	%2	bps 18	bps 1.15	%1.00	%15	bps

Net interest revenue (FTE) – Non-GAAP and net interest margin (FTE) – Non-GAAP include the tax equivalent adjustments on tax-exempt income which allows for comparisons 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.

FTE - fully taxable equivalent.

N/M - Not meaningful.

bps - basis points.

Net interest revenue increased 8% compared with the second quarter of 2016 and 4% (unannualized) compared with the first quarter of 2017. Both increases primarily reflect higher interest rates. The increase compared with the second quarter of 2016 also reflects lower premium amortization, partially offset by lower interest-earning assets and higher average long-term debt. The increase compared with the first quarter of 2017 also reflects an additional interest-earning day and higher interest-earning assets.

Net interest margin increased 17 basis points compared with the second quarter of 2016, primarily reflecting higher interest rates and lower interest-earning assets.

Average non-U.S. dollar deposits comprised approximately 25% of our average total deposits in the second quarter of 2017. Approximately 45% of the average non-U.S. dollar deposits in the second quarter of 2017 were euro-denominated.

Year-to-date 2017 compared with year-to-date 2016

Net interest revenue increased 6% in the first six months of 2017 compared with the first six months of 2016. The increase was primarily driven by higher interest rates and lower premium amortization, partially offset by lower interest-earning assets and higher average long-term debt. The increase in the net interest margin was primarily driven by the factors listed above.

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Average balances and interest rates (dollar amounts in millions, presented on an FTE basis)	Quarter ended			Quarter ended			Quarter ended			
	June 30, 2017	June 30, 2017	Average rates	March 31, 2017	March 31, 2017	Average rates	June 30, 2016	June 30, 2016	Average rates	
	Average balance	Interest	Average rates	Average balance	Interest	Average rates	Average balance	Interest	Average rates	
Assets										
Interest-earning assets:										
Interest-bearing deposits with banks (primarily foreign banks)	\$14,832	\$27	0.73	% \$14,714	\$22	0.60	% \$14,394	\$24	0.68	%
Interest-bearing deposits held at the Federal Reserve and other central banks	69,316	71	0.41	66,043	57	0.35	97,788	72	0.30	
Federal funds sold and securities purchased under resale agreements	26,873	86	1.29	25,312	67	1.07	25,813	56	0.87	
Margin loans	15,058	87	2.32	15,753	75	1.94	18,226	64	1.40	
Non-margin loans:										
Domestic offices	30,734	207	2.70	30,963	188	2.44	29,413	165	2.25	
Foreign offices	13,001	65	1.99	13,596	57	1.71	12,645	49	1.57	
Total non-margin loans	43,735	272	2.49	44,559	245	2.22	42,058	214	2.04	
Securities:										
U.S. Government obligations	25,928	106	1.64	26,239	104	1.60	24,571	92	1.50	
U.S. Government agency obligations	59,533	290	1.95	56,857	271	1.90	56,050	236	1.68	
State and political subdivisions – tax-exempt	3,298	26	3.09	3,373	26	3.11	3,778	28	2.90	
Other securities	28,468	81	1.15	28,317	88	1.25	33,603	104	1.24	
Trading securities	2,455	18	2.85	2,254	17	3.12	2,152	13	2.45	
Total securities	119,682	521	1.74	117,040	506	1.74	120,154	473	1.57	
Total interest-earning assets (a)	\$289,496	\$1,064	1.47	% \$283,421	\$972	1.38	% \$318,433	\$903	1.14	%
Allowance for loan losses	(164)	)		(169)	)		(163))		
Cash and due from banks	4,972			5,097			4,141			
Other assets	47,303			46,731			50,563			
Assets of consolidated investment management funds	908			1,120			1,246			
Total assets	\$342,515			\$336,200			\$374,220			
Liabilities										
Interest-bearing liabilities:										
Interest-bearing deposits:										
Money market rate accounts	\$7,379	\$1	0.04	% \$7,510	\$1	0.05	% \$7,280	\$1	0.06	%
Savings	1,014	2	0.75	1,094	2	0.61	1,175	1	0.39	
Demand deposits	5,659	2	0.14	5,371	1	0.12	1,790	2	0.40	
Time deposits	34,757	15	0.18	35,429	11					