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Bank of New York Mellon Corp
Form 10-Q
November 06, 2018

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 Sept. 30, 2018
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)

240 Greenwich 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 every Interactive Data File required to be submitted 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 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 ☐ Smaller reporting company ☐
Emerging growth company ☐

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

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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 Sept. 30, 2018
Common Stock, \$0.01 par value	988,777,495

THE BANK OF NEW YORK MELLON CORPORATION

Third Quarter 2018 Form 10-Q

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

Consolidated Financial Highlights (unaudited)

(dollars in millions, except per share amounts and unless otherwise noted)	Quarter ended			Year-to-date		
	Sept. 30, 2018	June 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017	
Results applicable to common shareholders of The Bank of New York Mellon Corporation:						
Net income	\$1,075	\$1,055	\$983	\$3,265	\$2,789	
Basic earnings per share	\$1.07	\$1.04	\$0.94	\$3.21	\$2.66	
Diluted earnings per share	\$1.06	\$1.03	\$0.94	\$3.20	\$2.64	
Fee and other revenue	\$3,168	\$3,210	\$3,167	\$9,648	\$9,305	
Income from consolidated investment management funds	10	12	10	11	53	
Net interest revenue	891	916	839	2,726	2,457	
Total revenue	\$4,069	\$4,138	\$4,016	\$12,385	\$11,815	
Return on common equity (annualized)	11.2	% 11.2	% 10.6	% 11.6	% 10.4	%
Return on tangible common equity (annualized) – Non-GAAP (a)	23.1	% 23.5	% 21.9	% 24.1	% 22.0	%
Return on average assets (annualized)	1.28	% 1.22	% 1.13	% 1.26	% 1.09	%
Fee revenue as a percentage of total revenue	78	% 78	% 78	% 78	% 79	%
Percentage of non-U.S. total revenue	37	% 37	% 36	% 37	% 35	%
Pre-tax operating margin	33	% 34	% 34	% 34	% 33	%
Net interest margin	1.27	% 1.26	% 1.15	% 1.25	% 1.14	%
Net interest margin on a fully taxable equivalent (“FTE”) basis – Non-GAAP (b)	1.28	% 1.26	% 1.16	% 1.26	% 1.16	%
Assets under custody and/or administration (“AUC/A”) at period end (in trillions) (c)	\$34.5	\$33.6	\$32.2	\$34.5	\$32.2	
Assets under management (“AUM”) at period end (in billions) (d)	\$1,828	\$1,805	\$1,824	\$1,828	\$1,824	
Market value of securities on loan at period end (in billions) (e)	\$415	\$432	\$382	\$415	\$382	
Average common shares and equivalents outstanding (in thousands):						
Basic	999,808	1,010,179	1,035,337	1,008,967	1,037,431	
Diluted	1,003,665	1,014,357	1,041,138	1,013,242	1,043,585	
Selected average balances:						
Interest-earning assets	\$279,218	\$292,086	\$291,841	\$291,040	\$288,283	
Assets of operations	\$331,867	\$345,840	\$344,966	\$344,970	\$340,588	
Total assets	\$332,341	\$346,328	\$345,709	\$345,520	\$341,510	

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Interest-bearing deposits	\$148,636	\$152,799	\$142,490	\$152,354	\$141,558
Long-term debt	\$28,074	\$28,349	\$28,138	\$28,275	\$27,148
Noninterest-bearing deposits	\$60,677	\$64,768	\$70,168	\$65,446	\$72,524
Preferred stock	\$3,542	\$3,542	\$3,542	\$3,542	\$3,542
Total The Bank of New York Mellon Corporation common shareholders' equity	\$38,036	\$37,750	\$36,780	\$37,795	\$35,876
Other information at period end:					
Cash dividends per common share	\$0.28	\$0.24	\$0.24	\$0.76	\$0.62
Common dividend payout ratio	26	% 23	% 26	% 24	% 23
Common dividend yield (annualized)	2.2	% 1.8	% 1.8	% 2.0	% 1.6
Closing stock price per common share	\$50.99	\$53.93	\$53.02	\$50.99	\$53.02
Market capitalization	\$50,418	\$53,927	\$54,294	\$50,418	\$54,294
Book value per common share	\$38.45	\$37.97	\$36.11	\$38.45	\$36.11
Tangible book value per common share – Non-GAAP (a)	\$19.35	\$19.00	\$18.19	\$19.35	\$18.19
Full-time employees	52,000	52,000	52,900	52,000	52,900
Common shares outstanding (in thousands)	988,777	999,945	1,024,022	988,777	1,024,022

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Consolidated Financial Highlights (unaudited) (continued)

Regulatory capital and other ratios	Sept. 30, 2018	June 30, 2018	Dec. 31, 2017	
Average liquidity coverage ratio (“LCR”)	121	% 118	% 118	%

Regulatory capital ratios: (f)

Advanced:

Common Equity Tier 1 (“CET1”) ratio	11.2	% 11.0	% 10.3	%
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Tier 1 capital ratio	13.3	13.1	12.3	
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Total (Tier 1 plus Tier 2) capital ratio	14.1	13.8	13.0	
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Standardized:

CET1 ratio	12.4	% 11.9	% 11.5	%
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Tier 1 capital ratio	14.7	14.1	13.7	
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Total (Tier 1 plus Tier 2) capital ratio	15.7	15.1	14.7	
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Tier 1 leverage ratio (f)	7.0	% 6.7	% 6.4	%
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Supplementary leverage ratio (“SLR”) (f)	6.4	6.1	5.9	
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BNY Mellon shareholders’ equity to total assets ratio	11.9	% 11.8	% 11.1	%
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BNY Mellon common shareholders’ equity to total assets ratio	10.9	10.8	10.1	
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Return on tangible common equity and tangible book value per common share, Non-GAAP measures, exclude (a) goodwill and intangible assets, net of deferred tax liabilities. See “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 41 for the reconciliation of Non-GAAP measures.

(b) See “Average balances and interest rates” on page 9 for a reconciliation of this Non-GAAP measure.

Includes the AUC/A of CIBC Mellon Global Securities Services Company (“CIBC Mellon”), a joint venture with the (c) Canadian Imperial Bank of Commerce, of \$1.4 trillion at Sept. 30, 2018 and June 30, 2018 and \$1.3 trillion at Sept. 30, 2017.

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

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 (e) Mellon clients, which totaled \$69 billion at Sept. 30, 2018, \$70 billion at June 30, 2018 and \$68 billion at Sept. 30, 2017.

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 risk-based regulatory (f) capital ratios, Tier 1 leverage ratio and SLR are presented on a fully phased-in basis for Dec. 31, 2017. Beginning Jan. 1, 2018, regulatory ratios are fully phased-in. For additional information on our capital ratios, see “Capital” beginning on page 32.

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, 2017 (“2017 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.”

Overview

Established in 1784 by Alexander Hamilton, we were the first company listed on the New York Stock Exchange (NYSE: BK). With a more than 230-year history, BNY Mellon is a global company that manages and services assets for financial institutions, corporations and individual investors in 35 countries.

BNY Mellon has two business segments, Investment Services and Investment Management, which offer a comprehensive set of capabilities and deep expertise across the investment lifecycle, enabling the company to provide solutions to buy-side and sell-side market participants, as well as leading institutional and wealth management clients globally.

The diagram below presents our two business segments and lines of business, with the remaining operations in the Other segment.

Highlights of third quarter 2018 results

We reported net income applicable to common shareholders of \$1.08 billion, or \$1.06 per diluted common share, in the third quarter of 2018. Net income applicable to common shareholders was \$983 million, or \$0.94 per diluted common share, in the third quarter of 2017. The highlights below are based on the third quarter of 2018 compared with the third quarter of 2017, unless otherwise noted.

• Total revenue of \$4.1 billion increased 1% primarily reflecting:

• Fee revenue increased 1% primarily reflecting higher equity market values, growth in collateral management and clearance volumes and higher performance fees, partially offset by lower foreign currency hedging. (See “Fee and other revenue” beginning on page 6.)

• Net interest revenue increased 6% primarily driven by higher rates, partially offset by lower deposits and other borrowings. (See “Net interest revenue” on page 8.)

• Noninterest expense of \$2.7 billion increased 3% primarily reflecting investments in technology and higher litigation expense, partially offset by

lower staff and distribution and servicing expenses. Litigation increased noninterest expense by 2%. (See “Noninterest expense” on page 11.)

Effective tax rate of 16.5%. The impact of adjusting provisional estimates for U.S. tax legislation and other changes decreased the effective rate by approximately 4.5%. (See “Income taxes” on page 11.)

Capital and liquidity

CET1 ratio under the Advanced Approach was 11.2% at Sept. 30, 2018 and 11.0% at June 30, 2018. The increase primarily reflects lower risk-weighted assets and capital generated through earnings, partially offset by capital deployed through common stock repurchases and dividend payments. (See “Capital” beginning on page 32.)

Repurchased 12 million common shares for \$602 million and paid \$283 million in dividends to common shareholders.

Highlights of our principal businesses

Investment Services

Total revenue increased 3%.

Income before taxes decreased 6%, driven by litigation expense.

AUC/A of \$34.5 trillion, up 7%, primarily reflecting net new business and higher equity market values, partially offset by the unfavorable impact of a stronger U.S. dollar.

Investment Management

Total revenue increased 2%.

Income before taxes increased 5%.

AUM of \$1.8 trillion increased slightly, primarily reflecting higher market values, partially offset by the divestiture of CenterSquare Investment Management (“CenterSquare”) and other changes and the unfavorable impact of a stronger U.S. dollar (principally versus the British pound).

See “Review of businesses” and Note 19 of the Notes to Consolidated Financial Statements for additional information on our businesses.

Fee and other revenue

Fee and other revenue	3Q18 vs.						YTD18 vs.		
(dollars in millions, unless otherwise noted)	3Q18	2Q18	3Q17	2Q18	3Q17	YTD18	YTD17	YTD17	
Investment services fees:									
Asset servicing (a)	\$1,157	\$1,157	\$1,105	—	% 5	% \$3,482	\$3,253	7	%
Clearing services	383	392	383	(2)	—	1,189	1,153	3	
Issuer services	287	266	288	8	—	813	780	4	
Treasury services	137	140	141	(2)	(3)	415	420	(1)	
Total investment services fees	1,964	1,955	1,917	—	2	5,899	5,606	5	
Investment management and performance fees	922	910	901	1	2	2,792	2,622	6	
Foreign exchange and other trading revenue	155	187	173	(17)	(10)	551	502	10	
Financing-related fees	52	53	54	(2)	(4)	157	162	(3)	
Distribution and servicing	34	34	40	—	(15)	104	122	(15)	
Investment and other income	41	70	63	N/M	N/M	193	262	N/M	
Total fee revenue	3,168	3,209	3,148	(1)	1	9,696	9,276	5	
Net securities gains (losses)	—	1	19	N/M	N/M	(48)	29	N/M	
Total fee and other revenue	\$3,168	\$3,210	\$3,167	(1)	%—	% \$9,648	\$9,305	4	%
Fee revenue as a percentage of total revenue	78	% 78	% 78	%		78	% 79	%	

AUM at period end (in billions) (b)	\$1,828	\$1,805	\$1,824	1	% —	% \$1,828	\$1,824	—	%
AUC/A at period end (in trillions) (c)	\$34.5	\$33.6	\$32.2	3	% 7	% \$34.5	\$32.2	7	%

Asset servicing fees include securities lending revenue of \$58 million in the third quarter of 2018, \$60 million in (a) the second quarter of 2018, \$47 million in the third quarter of 2017, \$173 million in the first nine months of 2018 and \$144 million in the first nine months of 2017.

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

(c) Includes the AUC/A of CIBC Mellon of \$1.4 trillion at Sept. 30, 2018 and June 30, 2018 and \$1.3 trillion at Sept. 30, 2017.

N/M - Not meaningful.

Fee and other revenue increased slightly compared with the third quarter of 2017 and decreased 1% (unannualized) compared with the second quarter of 2018. The decrease compared with the second quarter of 2018 primarily reflects lower foreign exchange and other trading revenue and investment and other income, partially offset by seasonally higher Depositary Receipts revenue.

Investment services fees

Investment services fees were impacted by the following compared with the third quarter of 2017 and the second quarter of 2018:

Asset servicing fees increased 5% compared with the third quarter of 2017 and were unchanged compared with the second quarter of 2018. The increase compared with the third quarter of 2017 primarily reflects growth in collateral management and higher equity market values and securities lending volumes.

Clearing services fees were unchanged compared with the third quarter of 2017 and decreased 2%

(unannualized) compared with the second quarter of 2018. Year-over-year, higher equity market values and long-term mutual funds balances were offset by the previously disclosed lost business. The decrease compared with the second quarter of 2018 primarily reflects lower clearance revenue.

Issuer services fees decreased slightly compared with the third quarter of 2017 and increased 8% (unannualized) compared with the second quarter of 2018. The increase compared with the second quarter of 2018 primarily reflects seasonally higher Depositary Receipts revenue.

Treasury services fees decreased 3% compared with the third quarter of 2017 and 2% (unannualized) compared with the second quarter of 2018. The decrease compared with the third quarter of 2017 primarily reflects higher compensating balance credits provided to clients, which reduce fee revenue and increase net interest revenue. The decrease compared with the second quarter of 2018 primarily reflects lower payments revenue.

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

Investment management and performance fees

Investment management and performance fees increased 2% compared with the third quarter of 2017 and 1% (unannualized) compared with the second quarter of 2018. On a constant currency basis (Non-GAAP), investment management and performance fees increased 3% compared with the third quarter of 2017. Performance fees were \$30 million in the third quarter of 2018, \$15 million in the third quarter of 2017 and \$12 million in the second quarter of 2018.

AUM was \$1.8 trillion, up slightly compared with Sept. 30, 2017 and 1% compared with June 30, 2018. See the “Investment Management business” in “Review of businesses” for additional details regarding the drivers of investment management and performance fees, AUM and AUM flows.

Foreign exchange and other trading revenue

Foreign exchange and other trading revenue

(in millions)	3Q18	2Q18	3Q17	YTD18	YTD17
Foreign exchange	\$ 150	\$ 171	\$ 158	\$ 504	\$ 463
Other trading revenue	5	16	15	47	39
Total foreign exchange and other trading revenue	\$ 155	\$ 187	\$ 173	\$ 551	\$ 502

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 5% compared with the third quarter of 2017 and 12% (unannualized) compared with the second quarter of 2018. The decrease compared with third quarter of 2017 primarily reflects foreign currency hedging, partially offset by higher volumes. The decrease compared with the second quarter of 2018 primarily reflects lower 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.

Distribution and servicing fees

The decrease in distribution and servicing fees compared with the third quarter of 2017 primarily reflects lower fees from money market funds.

Investment and other income

The following table provides the components of investment and other income.

Investment and other income

(in millions)	3Q18	2Q18	3Q17	YTD18	YTD17
Corporate/bank-owned life insurance	\$ 36	\$ 31	\$ 37	\$ 103	\$ 110
Asset-related gains (losses)	7	15	1	68	(1)
Expense reimbursements from joint venture	17	19	18	52	49
Seed capital gains (a)	8	3	6	11	25
Equity investment income	3	2	—	5	33
Lease-related gains	—	—	—	—	52
Other (loss) income	(30)	—	1	(46)	(6)

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Total investment and other income \$ 41 \$ 70 \$ 63 \$ 193 \$ 262

(a) Excludes seed capital gains related to consolidated investment management funds, which are reflected in operations of consolidated investment management funds.

Investment and other income decreased compared with the third quarter of 2017 and second quarter of 2018. Both decreases primarily reflect our investments in renewable energy, including the impact of adjusting the provisional tax estimates. Pre-tax losses on our renewable energy investments are offset by corresponding tax benefits and credits.

Year-to-date 2018 compared with year-to-date 2017

Fee and other revenue increased 4% in the first nine months of 2018, compared with the first nine months of 2017, primarily reflecting higher asset servicing fees, investment management and performance fees, foreign exchange and other trading revenue, partially offset by net securities losses and lower investment and other income. The 7% increase in asset servicing fees primarily reflects higher equity market values, securities lending and other volumes and the favorable impact of a weaker U.S. dollar. The 6% increase in investment management and performance fees primarily reflects higher equity market values, the favorable impact of a weaker U.S. dollar (principally versus the British pound) and higher performance fees. The 10% increase in foreign

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exchange and other trading revenue primarily reflects higher volumes, partially offset by foreign currency hedging. Net securities losses primarily reflect losses recorded in the first quarter of 2018 related to the sale of debt securities. The decrease in investment and other income primarily reflects lease-related gains

and a net gain related to an equity investment, both recorded in the first nine months of 2017, and lower other income due in part to our investments in renewable energy, partially offset by an increase in asset-related gains.

Net interest revenue

Net interest revenue				3Q18 vs.		YTD18		YTD18	
(dollars in millions)	3Q18	2Q18	3Q17	2Q18	3Q17	YTD18	YTD17	vs.	YTD17
Net interest revenue	\$891	\$916	\$839	(3)%	6 %	\$2,726	\$2,457	11	%
Add: Tax equivalent adjustment	5	5	12	N/M	N/M	16	36	N/M	
Net interest revenue (FTE) – Non-GAAP (a)	\$896	\$921	\$851	(3)%	5 %	\$2,742	\$2,493	10	%
Average interest-earning assets	\$279,218	\$292,086	\$291,841	(4)%	(4)%	\$291,040	\$288,283	1	%
Net interest margin	1.27	% 1.26	% 1.15	% 1	bps 12	bps 1.25	% 1.14	% 11	bps
Net interest margin (FTE) – Non-GAAP (a)	1.28	% 1.26	% 1.16	% 2	bps 12	bps 1.26	% 1.16	% 10	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 (a) tax-exempt sources and is consistent with industry practice. The adjustment to an FTE basis has no impact on net income.

N/M - Not meaningful.

bps - basis points.

Net interest revenue increased 6% compared with the third quarter of 2017 and decreased 3% (unannualized) compared with the second quarter of 2018. The increase compared with the third quarter of 2017 primarily reflects higher interest rates, partially offset by lower deposits and other borrowings. The decrease compared with the second quarter of 2018 was primarily driven by lower deposits and other borrowings, partially offset by higher interest rates.

Net interest margin increased 12 basis points compared with the third quarter of 2017 and 1 basis point compared with the second quarter of 2018. Both increases primarily reflect higher interest rates.

Average non-U.S. dollar deposits comprised approximately 30% of our average total deposits in the third quarter of 2018. Approximately 40% of the average non-U.S. dollar deposits in the third quarter of 2018 were euro-denominated.

Year-to-date 2018 compared with year-to-date 2017

Net interest revenue increased 11% in the first nine months of 2018 compared with the first nine months of 2017, primarily driven by higher interest rates. The net interest margin also increased primarily driven by higher interest rates.

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Average balances and interest rates (dollars in millions, presented on an FTE basis)	Quarter ended											
	Sept. 30, 2018			June 30, 2018			Sept. 30, 2017					
	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)	\$ 14,691	\$ 59	1.58	% \$ 15,748	\$ 56	1.41	% \$ 15,899	\$ 34	0.86	%		
Interest-bearing deposits held at the Federal Reserve and other central banks	61,216	125	0.80	69,676	136	0.77	70,430	89	0.50			
Federal funds sold and securities purchased under resale agreements (a)	26,738	281	4.18	28,051	230	3.29	28,120	119	1.67			
Margin loans	13,738	129	3.74	14,838	128	3.46	13,206	87	2.60			
Non-margin loans:												
Domestic offices	28,628	258	3.59	29,970	257	3.44	29,950	216	2.87			
Foreign offices	11,441	86	2.98	12,258	88	2.87	12,788	67	2.09			
Total non-margin loans	40,069	344	3.42	42,228	345	3.27	42,738	283	2.64			
Securities:												
U.S. Government obligations	24,423	129	2.09	23,199	116	2.02	25,349	106	1.67			
U.S. Government agency obligations	64,612	384	2.40	63,022	374	2.37	61,710	309	2.00			
State and political subdivisions – tax-exempt (b)	2,453	18	2.77	2,677	18	2.75	3,226	25	3.06			
Other securities	27,017	138	1.98	28,863	126	1.75	28,804	98	1.34			
Trading securities (b)	4,261	32	3.05	3,784	29	3.10	2,359	13	2.26			
Total securities	122,766	701	2.28	121,545	663	2.19	121,448	551	1.81			
Total interest-earning assets (b)	\$ 279,218	\$ 1,639	2.33	% \$ 292,086	\$ 1,558	2.14	% \$ 291,841	\$ 1,163	1.59	%		
Noninterest-earnings assets	53,123			54,242			53,868					
Total assets	\$ 332,341			\$ 346,328			\$ 345,709					
Liabilities												
Interest-bearing liabilities:												
Interest-bearing deposits:												
Domestic offices	\$ 57,942	\$ 142	0.97	% \$ 54,200	\$ 105	0.78	% \$ 44,212	\$ 31	0.28	%		
Foreign offices	90,694	95	0.42	98,599	68	0.28	98,278	26	0.10			
Total interest-bearing deposits	148,636	237	0.63	152,799	173	0.45	142,490	57	0.16			
Federal funds purchased and securities sold under repurchase agreements (a)	14,199	190	5.33	18,146	158	3.48	21,403	70	1.30			
Trading liabilities	1,150	7	2.32	1,198	7	2.43	1,434	2	0.54			
Other borrowed funds	2,747	16	2.33	2,399	14	2.40	2,197	7	1.38			
Commercial paper	3,102	16	2.10	3,869	21	2.13	2,736	8	1.15			
Payables to customers and broker-dealers	16,252	51	1.23	16,349	45	1.10	18,516	19	0.42			
Long-term debt	28,074	226	3.17	28,349	219	3.06	28,138	149	2.07			
	\$ 214,160	\$ 743	1.37	% \$ 223,109	\$ 637	1.14	% \$ 216,914	\$ 312	0.57	%		

Total interest-bearing liabilities							
Total noninterest-bearing deposits	60,677		64,768		70,168		
Other noninterest-bearing liabilities	15,660		16,857		17,763		
Total liabilities	290,497		304,734		304,845		
Temporary equity							
Redeemable noncontrolling interests	193		184		188		
Permanent equity							
Total The Bank of New York Mellon Corporation shareholders' equity	41,578		41,292		40,322		
Noncontrolling interests	73		118		354		
Total permanent equity	41,651		41,410		40,676		
Total liabilities, temporary equity and permanent equity	\$332,341		\$346,328		\$345,709		
Net interest revenue (FTE) – Non-GAAP	\$ 896		\$ 921		\$ 851		
Net interest margin (FTE) – Non-GAAP		1.28 %		1.26 %		1.16 %	
Less: Tax equivalent adjustment (c)	5		5		12		
Net interest revenue – GAAP	\$ 891		\$ 916		\$ 839		
Net interest margin – GAAP		1.27 %		1.26 %		1.15 %	

(a) Includes the impact of offsetting under enforceable netting agreements of approximately \$26 billion for the third quarter of 2018, \$18 billion for the second quarter of 2018 and \$7 billion for the third quarter of 2017.

(b) Interest income and average yields are presented on an FTE basis (Non-GAAP).

The tax equivalent adjustment relates to tax-exempt securities, primarily state and political subdivisions, and is (c) based on the federal statutory tax rate of 21% for the quarters in 2018 and 35% for the quarter in 2017, adjusted for applicable state income taxes, net of the related federal tax benefit.

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Average balances and interest rates	Year-to-date Sept. 30, 2018			Sept. 30, 2017			
(dollars in millions, presented on an FTE basis)	Average balance	Interest	Average rates	Average balance	Interest	Average rates	
Assets							
Interest-earning assets:							
Interest-bearing deposits with banks (primarily foreign banks)	\$14,766	\$157	1.42	% \$15,153	\$83	0.73	%
Interest-bearing deposits held at the Federal Reserve and other central banks	69,921	387	0.73	68,613	217	0.42	
Federal funds sold and securities purchased under resale agreements (a)	27,560	681	3.31	26,779	272	1.36	
Margin loans	14,743	372	3.38	14,663	249	2.27	
Non-margin loans:							
Domestic offices	29,664	743	3.35	30,545	611	2.67	
Foreign offices	12,068	251	2.78	13,126	189	1.93	
Total non-margin loans	41,732	994	3.18	43,671	800	2.45	
Securities:							
U.S. Government obligations	23,698	354	2.00	25,835	316	1.64	
U.S. Government agency obligations	63,702	1,108	2.32	59,384	870	1.95	
State and political subdivisions – tax-exempt (b)	2,667	55	2.71	3,298	77	3.09	
Other securities	28,175	387	1.83	28,531	267	1.25	
Trading securities (b)	4,076	89	2.92	2,356	48	2.74	
Total securities	122,318	1,993	2.17	119,404	1,578	1.76	
Total interest-earning assets (b)	\$291,040	\$4,584	2.10	% \$288,283	\$3,199	1.48	%
Noninterest-earnings assets	54,480			53,227			
Total assets	\$345,520			\$341,510			
Liabilities							
Interest-bearing liabilities:							
Interest-bearing deposits:							
Domestic offices	\$54,608	\$318	0.78	% \$47,456	\$66	0.19	%
Foreign offices	97,746	209	0.29	94,102	32	0.05	
Total interest-bearing deposits	152,354	527	0.46	141,558	98	0.09	
Federal funds purchased and securities sold under repurchase agreements (a)	17,085	455	3.56	19,465	132	0.90	
Trading liabilities	1,304	23	2.33	1,188	6	0.65	
Other borrowed funds	2,424	39	2.16	1,409	13	1.26	
Commercial paper	3,367	49	1.96	2,374	18	1.01	
Payables to customers and broker-dealers	16,564	127	1.02	19,360	42	0.29	
Long-term debt	28,275	622	2.90	27,148	397	1.93	
Total interest-bearing liabilities	\$221,373	\$1,842	1.11	% \$212,502	\$706	0.44	%
Total noninterest-bearing deposits	65,446			72,524			
Other noninterest-bearing liabilities	17,019			16,428			
Total liabilities	303,838			301,454			
Temporary equity							
Redeemable noncontrolling interests	190			174			
Permanent equity							
Total The Bank of New York Mellon Corporation shareholders' equity	41,337			39,418			
Noncontrolling interests	155			464			

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Total permanent equity	41,492			39,882	
Total liabilities, temporary equity and permanent equity	\$345,520			\$341,510	
Net interest revenue (FTE) – Non-GAAP	\$2,742			\$2,493	
Net interest margin (FTE) – Non-GAAP		1.26	%		1.16 %
Less: Tax equivalent adjustment (c)	16			36	
Net interest revenue – GAAP	\$2,726			\$2,457	
Net interest margin – GAAP		1.25	%		1.14 %

(a) Includes the impact of offsetting under enforceable netting agreements of approximately \$19 billion for the first nine months of 2018 and \$3 billion for the first nine months of 2017.

(b) Interest income and average yields are presented on an FTE basis (Non-GAAP).

The tax equivalent adjustment relates to tax-exempt securities, primarily state and political subdivisions, and is (c) based on the federal statutory tax rate of 21% for year-to-date 2018 and 35% for year-to-date 2017, adjusted for applicable state income taxes, net of the related federal tax benefit.

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Noninterest expense

Noninterest expense								YTD18		
	3Q18 vs.							vs.		
(dollars in millions)	3Q18	2Q18	3Q17	2Q18	3Q17		YTD18	YTD17	YTD17	
Staff (a)	\$1,478	\$1,489	\$1,485	(1)	%—	%	\$4,543	\$4,405	3	%
Professional, legal and other purchased services	332	328	305	1	9		951	937	1	
Software	189	192	175	(2)	8		554	514	8	
Net occupancy	139	156	141	(11)	(1)		434	417	4	
Sub-custodian and clearing (b)	106	110	101	(4)	5		335	312	7	
Distribution and servicing	99	106	109	(7)	(9)		311	313	(1)	
Furniture and equipment	73	74	58	(1)	26		208	174	20	
Business development	51	62	49	(18)	4		164	163	1	
Bank assessment charges	49	47	51	4	(4)		148	167	(11)	
Amortization of intangible assets	48	48	52	—	(8)		145	157	(8)	
Other (a)(b)(c)	174	135	128	29	36		431	392	10	
Total noninterest expense	\$2,738	\$2,747	\$2,654	—	%3	%	\$8,224	\$7,951	3	%

Full-time employees at period end 52,000 52,000 52,900 — % (2) %

In the first quarter of 2018, we adopted new accounting guidance included in Accounting Standards Update (“ASU”) 2017-07, Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which required the reclassification of the components of pension and other postretirement costs, other than the service cost component. As a result, staff expense increased and other expense decreased. Prior periods have been reclassified. See Note 2 of the Notes to Consolidated Financial Statements for additional information.

(a) Beginning in the first quarter of 2018, clearing expense, which was previously included in other expense, was included with sub-custodian expense. Prior periods have been reclassified.

(b) Beginning in the first quarter of 2018, merger and integration (“M&I”), litigation and restructuring charges are no longer separately disclosed. Expenses previously reported in this line have been reclassified to existing expense categories, primarily other expense.

Total noninterest expense increased 3% compared with the third quarter of 2017 and decreased slightly compared with the second quarter of 2018. The increase compared with the third quarter of 2017 primarily reflects investments in technology and higher litigation expense, partially offset by lower staff and distribution and servicing expenses. The investments in technology are included in staff, professional, legal and other purchased services, software and furniture and equipment expenses. The decrease compared with the second quarter of 2018 primarily reflects lower net occupancy, staff and business development expenses, partially offset by higher litigation expense. The decrease in net occupancy expense is primarily due to expenses associated with the continued consolidation of our real estate recorded in the second quarter of 2018.

We expect to continue to incur additional expenses as we invest in our technology infrastructure and platforms. We also expect to incur expenses related to relocating our corporate headquarters, which is estimated to total \$75 million, of which \$12 million was recorded in the second quarter of 2018. We expect the remaining expenses related to relocating our corporate headquarters to be recorded in the fourth quarter of 2018.

Year-to-date 2018 compared with year-to-date 2017

Total noninterest expense increased 3% compared with the first nine months of 2017. The increase primarily reflects investments in technology, the unfavorable impact of a weaker U.S. dollar, higher litigation, volume-related

sub-custodian and clearing expenses and expenses associated with the continued consolidation of our real estate, partially offset by lower consulting expense and decreases in other expenses.

Income taxes

BNY Mellon recorded an income tax provision of \$220 million (16.5% effective tax rate) in the third quarter of 2018, including the impact of adjusting provisional estimates for U.S. tax legislation and other changes. The income tax provision was \$348 million (25.4% effective tax rate) in the third quarter of 2017 and \$286 million (20.5% effective tax rate) in the second quarter of 2018. For additional information, see Note 11 of the Notes to Consolidated Financial Statements.

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Review of businesses

We have an internal information system that produces performance data along product and service lines for our two principal businesses, Investment Services and Investment Management, 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 products and services in each line of business, 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 when organizational changes are made. There were no significant organizational changes in the third quarter of 2018. The results are also subject to refinements in revenue and expense allocation methodologies, which are typically reflected on a prospective basis.

The results of our businesses may be influenced by client and other activities that vary by quarter. In the first quarter, incentive expense typically increases reflecting the vesting of long-term stock awards for retirement-eligible employees. In the third quarter, Depositary Receipts revenue is typically higher due to an increased level of client dividend payments. Also in the third quarter, volume-related fees may decline due to reduced client activity. In the third

quarter, staff expense typically increases reflecting the annual employee merit increase. 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 and the euro. On a consolidated basis and in our Investment Services business, we typically have more foreign currency-denominated expenses than revenues. However, our Investment Management business typically has more foreign currency-denominated revenues than expenses. Overall, currency fluctuations impact the year-over-year growth rate in 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.

Fee revenue in Investment Management, and to a lesser extent in Investment Services, is impacted by the value of market indices. At Sept. 30, 2018, we estimate that a 5% change in global equity markets, spread evenly throughout the year, would impact fee revenue by less than 1% and diluted earnings per common share by \$0.03 to \$0.05.

See Note 19 of the Notes to Consolidated Financial Statements for the consolidating schedules which show the contribution of our businesses to our overall profitability.

Investment Services business

	3Q18 vs.									YTD18 vs.
(dollars in millions unless otherwise noted)	3Q18	2Q18	1Q18	4Q17	3Q17	2Q18	3Q17	YTD18	YTD17	YTD17
Revenue:										
Investment services fees:										
Asset servicing	\$1,136	\$1,135	\$1,143	\$1,106	\$1,081	—	% 5	% \$3,414	\$3,180	7
Clearing services	383	391	414	400	381	(2	) 1	1,188	1,149	3
Issuer services	288	265	260	196	288	9	—	813	779	4
Treasury services	136	140	138	136	141	(3	) (4	414	419	(1
Total investment services fees	1,943	1,931	1,955	1,838	1,891	1	3	5,829	5,527	5
Foreign exchange and other trading revenue	161	172	169	168	154	(6	) 5	502	452	11
Other (a)	126	130	126	135	142	(3	) (11	382	407	(6
Total fee and other revenue	2,230	2,233	2,250	2,141	2,187	—	2	6,713	6,386	5
Net interest revenue	827	874	844	813	777	(5	) 6	2,545	2,245	13
Total revenue	3,057	3,107	3,094	2,954	2,964	(2	) 3	9,258	8,631	7
Provision for credit losses	1	1	(7	) (2	) (2	) N/M	N/M	(5	) (5	) N/M
Noninterest expense (excluding amortization of intangible assets)	1,995	1,931	1,913	2,060	1,837	3	9	5,839	5,538	5
Amortization of intangible assets	35	36	36	37	37	(3	) (5	107	112	(4
Total noninterest expense	2,030	1,967	1,949	2,097	1,874	3	8	5,946	5,650	5
Income before taxes	\$1,026	\$1,139	\$1,152	\$859	\$1,092	(10)%(6)% \$3,317	\$2,986	11
	34	% 37	% 37	% 29	% 37	%		36	% 35	%

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Pre-tax
operating
margin

Securities
lending
revenue

Total revenue
by line of
business:

Asset
Servicing

Pershing

Issuer
Services

Treasury
Services

Clearance and
Collateral
Management

Total revenue
by line of
business

Metrics:

Average loans

Average
deposits

AUC/A at
period end (in \$34.5
trillions) (b)

Market value
of securities
on loan at
period end (in
billions) (c)

Pershing:

Average
active
clearing
accounts
(U.S.
platform) (in
thousands)

Average
long-term
mutual fund
assets (U.S.

\$52	\$55	\$48	\$45	\$41	(5	)	%27	%	\$155	\$123	26	9
\$1,458	\$1,520	\$1,519	\$1,459	\$1,420	(4	)	%3	%	\$4,497	\$4,144	9	9
558	558	581	569	542	—		3		1,697	1,611	5	9
453	431	418	352	442	5		2		1,302	1,236	5	9
324	329	321	322	316	(2	)	3		974	929	5	9
264	269	255	252	244	(2	)	8		788	711	11	9
\$3,057	\$3,107	\$3,094	\$2,954	\$2,964	(2	)	%3	%	\$9,258	\$8,631	7	9
\$35,044	\$38,002	\$39,200	\$38,845	\$38,038	(8	)	% (8	)	% \$37,400	\$40,578	(8)
\$192,741	\$203,064	\$214,130	\$204,680	\$198,299	(5	)	% (3	)	% \$203,233	\$198,796	2	9
\$34.5	\$33.6	\$33.5	\$33.3	\$32.2	3		% 7	%	\$34.5	\$32.2	7	9
\$415	\$432	\$436	\$408	\$382	(4	)	%9	%	\$415	\$382	9	9
6,108	6,080	6,075	6,126	6,203	—		% (2)	%			
\$527,336	\$512,645	\$514,542	\$508,873	\$500,998	3		% 5	%				

platform)

Average

investor

margin loans	\$10,696	\$10,772	\$10,930	\$9,822	\$8,886	(1)%20	%
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(U.S.

platform)

Clearance and

Collateral

Management:

Average

tri-party

collateral

management	\$2,995	\$2,801	\$2,698	\$2,606	\$2,534	7	%18	%
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balances (in

billions)

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

(b) Includes the AUC/A of CIBC Mellon of \$1.4 trillion at Sept. 30, 2018 and June 30, 2018, and \$1.3 trillion at March 31, 2018, Dec. 31, 2017 and Sept. 30, 2017.

(c) 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 agent on behalf of CIBC Mellon clients, which totaled \$69 billion at Sept. 30, 2018, \$70 billion at June 30, 2018, \$73 billion at March 31, 2018, \$71 billion at Dec. 31, 2017 and \$68 billion at Sept. 30, 2017.

N/M - Not meaningful.

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Business description

BNY Mellon Investment Services provides business services and technology solutions to entities including financial institutions, corporations, foundations and endowments, public funds and government agencies. Our lines of business include: Asset Servicing, Pershing, Issuer Services, Treasury Services and Clearance and Collateral Management.

We are one of the leading global investment services providers with \$34.5 trillion of AUC/A at Sept. 30, 2018.

• We are the primary provider of U.S. government securities clearance and a provider of non-U.S. government securities clearance.

• We are a leading provider of tri-party collateral management services with an average of \$3.0 trillion serviced globally including approximately \$2.1 trillion of the U.S. tri-party repo market.

• Our agency securities lending program is one of the largest lenders of U.S. and non-U.S. securities, servicing a lendable asset pool of approximately \$3.7 trillion in 34 separate markets.

The Asset Servicing business provides a comprehensive suite of solutions. As one of the largest global custody and fund accounting providers and a trusted partner, we offer services for the safekeeping of assets in capital markets globally as well as alternative investment and structured product strategies. We provide custody and foreign exchange services, support exchange-traded funds and unit investment trusts and provide our clients outsourcing capabilities. We deliver securities lending and financing solutions on both an agency and principal basis. Our market leading liquidity services portal enables cash investments for institutional clients and includes fund research and analytics.

Pershing provides clearing, custody, business and technology solutions, delivering dependable operational support to financial organizations globally.

The Issuer Services business includes Corporate Trust and Depositary Receipts. Our Corporate Trust business delivers a full range of issuer and related investor services, including trustee, paying agency, fiduciary, escrow and other financial

services. We are a leading provider to the debt capital markets, providing customized and market-driven solutions to investors, bondholders and lenders. Our Depositary Receipts business drives global investing by providing servicing and value-added solutions that enable, facilitate and enhance cross-border trading, clearing, settlement and ownership. We are one of the largest providers of depositary receipts services in the world, partnering with leading companies from more than 50 countries.

Our Treasury Services business includes customizable solutions and innovative technology that deliver high-quality cash management, payment and trade support for corporate and institutional global treasury needs.

Our Clearance and Collateral Management business clears and settles equity and fixed-income transactions globally and serves as custodian for tri-party repo collateral worldwide. Our collateral services include collateral management, administration and segregation.

We offer innovative solutions and industry expertise which help financial institutions and institutional investors to mine opportunities from liquidity, financing, risk and balance sheet challenges.

Review of financial results

AUC/A increased 7% compared with Sept. 30, 2017 to \$34.5 trillion, primarily reflecting net new business and higher equity market values, partially offset by the unfavorable impact of a stronger U.S. dollar. AUC/A consisted of 37% equity securities and 63% fixed-income securities at both Sept. 30, 2018 and Sept. 30, 2017.

Total revenue of \$3.1 billion increased 3% compared with the third quarter of 2017 and decreased 2% (unannualized) compared with the second quarter of 2018. Net interest revenue increased, compared with the third quarter of 2017, in all businesses, primarily driven by higher interest rates. The drivers of fee revenue by line of business are indicated below.

Asset Servicing revenue of \$1.5 billion increased 3% compared with the third quarter of 2017 and decreased 4% (unannualized) compared with the second quarter of 2018. The increase compared with

the third quarter of 2017 primarily reflects higher equity market values, securities lending volumes, net interest revenue and foreign exchange volumes. The decrease compared with second quarter of 2018 primarily reflects lower net interest revenue, primarily driven by lower deposit balances, and lower foreign exchange volumes.

Pershing revenue of \$558 million increased 3% compared with the third quarter of 2017 and was unchanged compared with the second quarter of 2018. The increase compared with the third quarter of 2017 primarily reflects higher net interest revenue, equity market values and long-term mutual funds balances, partially offset by the previously disclosed lost business.

Issuer Services revenue of \$453 million increased 2% compared with the third quarter of 2017 and 5% (unannualized) compared with the second quarter of 2018. The increase compared with the third quarter of 2017 primarily reflects higher net interest revenue in Corporate Trust. The increase compared with the second quarter of 2018 primarily reflects seasonality in Depositary Receipts.

Treasury Services revenue of \$324 million increased 3% compared with the third quarter of 2017 and decreased 2% (unannualized) compared with the second quarter of 2018. The increase compared with the third quarter of 2017 primarily reflects higher net interest revenue and transaction volumes. The decrease compared with the second quarter of 2018 primarily reflects lower net interest revenue.

Clearance and Collateral Management revenue of \$264 million increased 8% compared with the third quarter of 2017 and decreased 2% (unannualized) compared with the second quarter of 2018. The increase compared with the third quarter of 2017 primarily reflects growth in collateral management, clearance volumes and net interest revenue. The decrease compared with the second quarter of 2018 primarily reflects lower net interest revenue.

Market and regulatory trends are driving investable assets toward lower fee asset management products at reduced margins for our clients. These dynamics are also negatively impacting our investment services

fees. However, at the same time, these trends are providing additional outsourcing opportunities as clients and other market participants seek to comply with new regulations and reduce their operating costs.

Noninterest expense of \$2.0 billion increased 8% compared with the third quarter of 2017 and 3% (unannualized) compared with the second quarter of 2018. Both increases were primarily driven by investments in technology and higher litigation expense, partially offset by lower staff expense. Litigation increased noninterest expense by 3%.

Year-to-date 2018 compared with year-to-date 2017

Total revenue of \$9.3 billion increased 7% compared with the first nine months of 2017. Net interest revenue increased in all lines of business primarily driven by higher interest rates. Asset Servicing revenue of \$4.5 billion increased 9% compared with the first nine months of 2017 primarily reflecting higher net interest revenue, higher foreign exchange and securities lending volumes, equity market values and the favorable impact of a weaker U.S. dollar. Pershing revenue of \$1.7 billion increased 5% compared with the first nine months of 2017 primarily reflecting higher net interest revenue, and higher fees due to growth in long-term mutual fund balances, partially offset by the impact of previously disclosed lost business. Issuer Services revenue of \$1.3 billion increased 5% compared with the first nine months of 2017 primarily reflecting higher net interest revenue in Corporate Trust and higher Depositary Receipts revenue. Treasury Services revenue of \$974 million increased 5% compared with the first nine months of 2017 primarily reflecting higher net interest revenue and transaction volumes. Clearance and Collateral Management revenue of \$788 million increased 11% compared with the first nine months of 2017 primarily reflecting growth in collateral management, higher clearance volumes and higher net interest revenue.

Noninterest expense of \$5.9 billion increased 5% compared with the first nine months of 2017 primarily reflecting investments in technology, higher litigation expense and the unfavorable impact of a weaker U.S. dollar.

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Investment Management business

						3Q18 vs.				YTD18 vs.	
(dollars in millions)	3Q18	2Q18	1Q18	4Q17	3Q17	2Q18	3Q17	YTD18	YTD17	YTD17	
Revenue:											
Investment management fees (a)	\$879	\$885	\$898	\$898	\$871	(1)	% 1	%	\$2,662	\$2,530	5 %
Performance fees	30	12	48	50	15	N/M	100	90	44	105	
Investment management and performance fees (b)	909	897	946	948	886	1	3	2,752	2,574	7	
Distribution and servicing Other (a)	47 (18)	48 (4)	50 (16)	51 (25)	51 (19)	(2) N/M	(8) N/M	145 (6)	156 (36)	(7) N/M	
Total fee and other revenue (a)	938	941	1,012	974	918	—	2	2,891	2,694	7	
Net interest revenue	77	77	76	74	82	—	(6)	230	255	(10)	
Total revenue	1,015	1,018	1,088	1,048	1,000	—	2	3,121	2,949	6	
Provision for credit losses	(2)	2	2	1	(2)	N/M	N/M	2	1	N/M	
Noninterest expense (excluding amortization of intangible assets)	688	685	692	756	687	—	—	2,065	2,038	1	
Amortization of intangible assets	13	12	13	15	15	8	(13)	38	45	(16)	
Total noninterest expense	701	697	705	771	702	1	—	2,103	2,083	1	
Income before taxes	\$316	\$319	\$381	\$276	\$300	(1)	% 5	%	\$1,016	\$865	17 %
Pre-tax operating margin	31	% 31	% 35	% 26	% 30	%		33	% 29	%	
Adjusted pre-tax operating margin –	35	% 35	% 39	% 29	% 34	%		36	% 33	%	

Non-GAAP
(c)

Total revenue
by line of
business:

Asset Management	\$704	\$702	\$770	\$738	\$693	—	% 2	%	\$2,176	\$2,037	7	%
Wealth Management	311	316	318	310	307	(2)	) 1		945	912	4	
Total revenue by line of business	\$1,015	\$1,018	\$1,088	\$1,048	\$1,000	—	% 2	%	\$3,121	\$2,949	6	%

Average
balances:

Average loans	\$ 16,763	\$ 16,974	\$ 16,876	\$ 16,813	\$ 16,724	(1))%	—	%	\$ 16,871	\$ 16,481	2	%
Average deposits	\$ 14,634	\$ 14,252	\$ 13,363	\$ 11,633	\$ 12,374	3	% 18	%	\$ 14,088	\$ 14,283	(1))%	

Total fee and other revenue includes the impact of the consolidated investment management funds, net of (a) noncontrolling interests. Additionally, other revenue includes asset servicing, treasury services, foreign exchange and other trading revenue and investment and other income.

On a constant currency basis, investment management and performance fees increased 3% (Non-GAAP) compared with the third quarter of 2017. See “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 41 for the reconciliation of this Non-GAAP measure.

Net of distribution and servicing expense. See “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 41 for the reconciliation of this Non-GAAP measure. In the first quarter of (c) 2018, the adjusted pre-tax margin – Non-GAAP for prior periods was restated to include amortization of intangible assets and the provision for credit losses.

N/M - Not meaningful.

AUM trends (a) (dollars in billions)	3Q18	2Q18	1Q18	4Q17	3Q17	3Q18 vs. 2Q18 3Q17		
AUM at period end, by product type:								
Equity	\$167	\$160	\$161	\$161	\$158	4	%6	%
Fixed income	202	197	206	206	206	3	(2))
Index	352	334	333	350	333	5	6	
Liability-driven investments (b)	652	663	700	667	622	(2)	)5	
Multi-asset and alternative investments	184	181	185	214	207	2	(11))
Cash	271	270	283	295	298	—	(9))
Total AUM by product type	\$1,828	\$1,805	\$1,868	\$1,893	\$1,824	1	%—	%
Changes in AUM:								
Beginning balance of AUM	\$1,805	\$1,868	\$1,893	\$1,824	\$1,771			
Net inflows (outflows):								
Long-term strategies:								
Equity	(2)	) (3)	)—	(6)	) (2))		
Fixed income	2	(4)	)7	(2)	)4			
Liability-driven investments (b)	16	2	13	23	(2))		
Multi-asset and alternative investments	2	(3)	) (3)	2	3			
Total long-term active strategies inflows (outflows)	18	(8)	)17	17	3			
Index	(3)	) (7)	) (13)	(1)	) (3))		
Total long-term strategies inflows (outflows)	15	(15)	)4	16	—			
Short-term strategies:								
Cash	—	(11)	) (14)	(4)	)10			
Total net inflows (outflows)	15	(26)	) (10)	12	10			
Net market impact	18	17	(14)	47	17			
Net currency impact	(10)	) (53)	)29	10	26			
Divestitures/Other	—	(1)	) (30)	(c)—	—			
Ending balance of AUM	\$1,828	\$1,805	\$1,868	\$1,893	\$1,824	1	%—	%
Wealth Management client assets (d)	\$261	\$254	\$246	\$251	\$245	3	%7	%

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

(b) Includes currency overlay AUM.

(c) Primarily reflects a change in methodology beginning in the first quarter of 2018 to exclude AUM related to equity method investments as well as the CenterSquare divestiture.

(d) Includes AUM and AUC/A in the Wealth Management business.

Business description

Our Investment Management business consists of two lines of business, Asset Management and Wealth Management. The Asset Management business offers diversified investment management strategies and distribution of investment products. The Wealth Management business provides investment management, custody, wealth and estate planning and private banking services. See pages 19 and 20 of our 2017 Annual Report for additional information on our Investment Management business.

Review of financial results

AUM increased slightly compared with Sept. 30, 2017 reflecting higher market values, partially offset by the divestiture of CenterSquare and other changes and the unfavorable impact of a stronger U.S. dollar (principally versus

the British pound).

Net long-term inflows of \$15 billion in the third quarter of 2018 were a result of \$18 billion of inflows from actively managed strategies, primarily liability-driven investments, and \$3 billion of outflows from index funds. Market and regulatory trends have resulted in increased demand for lower fee asset management products, and for performance-based fees.

Total revenue of \$1.0 billion increased 2% compared with the third quarter of 2017 and decreased slightly compared with the second quarter of 2018.

Asset Management revenue of \$704 million increased 2% compared with the third quarter of 2017 and increased slightly compared with the second quarter of 2018. The increase compared with the third quarter of 2017 reflects higher equity market values and performance fees, partially offset by the impact of net outflows and the divestiture of CenterSquare.

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Wealth Management revenue of \$311 million increased 1% compared with the third quarter of 2017 and decreased 2% (unannualized) compared with the second quarter of 2018. The decrease compared with the second quarter of 2018 primarily reflects lower net interest revenue, partially offset by higher equity market values.

Revenue generated in the Investment Management business included 42% from non-U.S. sources in the third quarter of 2018, compared with 41% in the third quarter of 2017 and second quarter of 2018.

Year-to-date 2018 compared with year-to-date 2017

Total revenue of \$3.1 billion increased 6% compared with the first nine months of 2017. Asset

Management revenue of \$2.2 billion increased 7% compared with the first nine months of 2017, primarily reflecting higher equity market values, the favorable impact of a weaker U.S. dollar (principally versus the British pound) and higher performance fees. Wealth management revenue of \$945 million increased 4%, primarily reflecting higher equity market values, partially offset by lower net interest revenue.

Noninterest expense of \$2.1 billion increased 1% primarily reflecting the unfavorable impact of a weaker U.S. dollar and investments in technology.

Other segment

(in millions)	3Q18	2Q18	1Q18	4Q17	3Q17	YTD18	YTD17
Fee revenue (loss)	\$7	\$40	\$57	\$(221)	\$50	\$104	\$225
Net securities gains (losses)	—	1	(49)	(26)	19	(48)	29
Total fee and other revenue (loss)	7	41	8	(247)	69	56	254
Net interest (expense)	(13)	(35)	(1)	(36)	(20)	(49)	(43)
Total (loss) revenue	(6)	6	7	(283)	49	7	211
Provision for credit losses	(2)	(6)	—	(5)	(2)	(8)	(14)
Noninterest expense	6	81	87	135	77	174	212
(Loss) income before taxes	\$(10)	\$(69)	\$(80)	\$(413)	\$(26)	\$(159)	\$13
Average loans and leases	\$2,000	\$2,090	\$2,530	\$1,114	\$1,182	\$2,204	\$1,275

See pages 25 and 26 of our 2017 Annual Report for additional information on the Other segment.

Review of financial results

Fee revenue decreased \$43 million compared with the third quarter of 2017 and decreased \$33 million compared with the second quarter of 2018. Both decreases primarily reflect our investments in renewable energy, including the impact of adjusting the provisional tax estimates (offset in income tax and de minimis to net income), and foreign currency hedging.

Net interest expense decreased \$7 million compared with the third quarter of 2017 and \$22 million compared with the second quarter of 2018. Both decreases primarily resulted from corporate treasury activity.

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Noninterest expense decreased \$71 million compared with the third quarter of 2017 and \$75 million compared with the second quarter of 2018. Both decreases primarily reflect lower staff expense. The sequential decrease also reflects the expenses associated with the consolidation of our real estate recorded in second quarter of 2018. We expect to record the remaining expense related to relocating our corporate headquarters in the fourth quarter of 2018.

Year-to-date 2018 compared with year-to-date 2017

Income before taxes decreased \$172 million compared with the first nine months of 2017. Total revenue decreased \$204 million, primarily reflecting lease-related gains and a net gain related to an equity investment, both recorded in 2017, net securities losses, losses on our investments in renewable energy and lower foreign currency hedging. Noninterest expense decreased \$38 million, primarily reflecting

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lower pension expense and a methodological change in 2017 for allocating employee benefits expense to the business segments with no impact to consolidated results, partially offset by higher net occupancy expense, including the expenses associated with the continued consolidation of our real estate.

Critical accounting estimates

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in our 2017 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	2017 Annual Report, pages 29-30
Fair value of financial instruments and derivatives	2017 Annual Report, pages 30-32
OTTI	2017 Annual Report, pages 32-33
Goodwill and other intangibles	2017 Annual Report, pages 33-34
Pension accounting	2017 Annual Report, pages 34-35

Consolidated balance sheet review

One of our key risk management objectives is to maintain a balance sheet that remains strong throughout market cycles to meet the expectations of our major stakeholders, including our shareholders, clients, creditors and regulators.

We also seek to verify that the overall liquidity risk, including intraday liquidity risk, that we undertake stays within our risk appetite. The objective of our balance sheet management strategy is to maintain a balance sheet that is characterized by strong liquidity and asset quality, ready access to external funding sources at competitive rates and a strong capital structure that supports our risk-taking activities and is adequate to absorb potential losses. In managing the balance sheet, appropriate consideration is given to balancing the competing needs of maintaining sufficient levels of liquidity and complying with applicable regulations and supervisory expectations while optimizing profitability.

At Sept. 30, 2018, total assets were \$350 billion compared with \$372 billion at Dec. 31, 2017. The decrease in total assets was primarily driven by lower interest-bearing deposits with the Federal Reserve and other central banks and loans. Deposits totaled \$232 billion at Sept. 30, 2018 and \$244 billion at Dec. 31, 2017. The decrease primarily reflects lower interest-bearing deposits in non-U.S. offices and noninterest-bearing deposits principally in U.S. offices, partially offset by higher interest-bearing deposits in U.S. offices. At Sept. 30, 2018, total interest-bearing deposits were 56% of total interest-earning assets, compared with 51% at Dec. 31, 2017.

At Sept. 30, 2018, we had \$43 billion of liquid funds (which include interest-bearing deposits with banks and federal funds sold and securities purchased under resale agreements) and \$80 billion of cash (including \$75 billion of overnight deposits with the Federal Reserve and other central banks) for a total of \$123 billion of available funds. This compares with available funds of \$137 billion at Dec. 31, 2017. Total available funds as a percentage of total assets were 35% at Sept. 30, 2018 and 37% at Dec. 31, 2017. For additional information on our liquid funds and available funds, see “Liquidity and dividends.”

Securities were \$119 billion, or 34% of total assets, at Sept. 30, 2018, compared with \$120 billion, or 32% of total assets, at Dec. 31, 2017. The decrease primarily reflects declines in sovereign debt/sovereign guaranteed securities, other securities and securities issued by state and political subdivisions, partially offset by increases in agency commercial mortgage-backed securities (“MBS”) and U.S. government agency securities. For additional information on

our securities portfolio, see “Securities” and Note 4 of the Notes to Consolidated Financial Statements.

Loans were \$54 billion, or 15% of total assets, at Sept. 30, 2018, compared with \$62 billion, or 17% of total assets, at Dec. 31, 2017. The decrease in loans was primarily driven by lower loans to financial institutions and margin loans. For additional information on our loan portfolio, see “Loans” and Note 5 of the Notes to Consolidated Financial Statements.

Long-term debt totaled \$28 billion at both Sept. 30, 2018 and Dec. 31, 2017. The balance reflects issuances of \$4.2 billion, offset by maturities of \$3.4 billion and a decrease in the fair value of hedged

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long-term debt. For additional information on long-term debt, see “Liquidity and dividends.”

The Bank of New York Mellon Corporation total shareholders’ equity increased to \$42 billion from \$41 billion at Dec. 31, 2017. For additional information on our capital, see “Capital.”

Country risk exposure

We have exposure to certain countries with higher risk profiles. Exposure described below reflects the country of operations and risk of the immediate counterparty. Ratings of our counterparties are capped at the rating of the country. We continue to monitor our exposure to these and other countries as part of our risk management process. See “Risk management” in our 2017 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.

Italy and Spain

We had net exposure of \$1.3 billion to Italy and \$1.8 billion to Spain at Sept. 30, 2018 and \$1.8 billion to Italy and \$2.1 billion to Spain at Dec. 31, 2017. At both Sept. 30, 2018 and Dec. 31, 2017, exposure to Italy and Spain primarily consisted of investment grade sovereign debt. Securities exposure totaled \$984 million to Italy and \$1.5 billion to Spain at Sept. 30, 2018 and \$1.3 billion to Italy and \$1.6 billion to Spain at Dec. 31, 2017.

Brazil

We have operations in Brazil providing investment services and investment management services. At Sept. 30, 2018 and Dec. 31, 2017, we had total net exposure to Brazil of \$1.6 billion and \$1.4 billion, respectively. This included \$1.5 billion and \$1.3 billion, respectively, in loans, which are primarily short-term trade finance loans extended to large established financial institutions. At Sept. 30, 2018 and Dec. 31, 2017, we held \$102 million and \$136 million, respectively, of non-investment grade sovereign debt.

Turkey

We mainly provide treasury and issuer services, as well as foreign exchange products primarily to the top-ten largest financial institutions in the country. As of Sept. 30, 2018 and Dec. 31, 2017, our exposure totaled \$415 million and \$707 million, respectively, consisting primarily of syndicated credit facilities and trade finance loans.

Securities

In the discussion of our securities portfolio, we have included certain credit ratings information because the information can indicate the degree of credit risk to which we are exposed. Significant changes in ratings classifications for our securities portfolio could indicate increased credit risk for us and could be accompanied by a reduction in the fair value of our securities portfolio.

The following table shows the distribution of our total securities portfolio.

Securities portfolio	June 30, 2018	3Q18 change in unrealized gain (loss)	Sept. 30, 2018 Amortized cost	Fair value	Fair value as a % of amortized cost (a)	Unrealized gain (loss)	Ratings (b)				
(dollars in millions)	Fair value						AAA/A+/AA-	A+/A-	BBB+/BBB-	BB+ and lower	Not rated
Agency RMBS	\$49,741	\$ (214)	\$50,934	\$49,555	97	%(1,379)	100	%—	%—	%—	%—
U.S. Treasury	23,962	(61)	24,827	24,622	99	(205)	100	—	—	—	—
Sovereign debt/sovereign guaranteed (c)	13,069	(45)	12,338	12,386	100	48	74	6	19	1	—
Agency commercial MBS	11,019	(2)	11,129	11,050	99	(79)	100	—	—	—	—
CLOs	3,177	(3)	3,368	3,363	100	(5)	98	—	—	1	1
U.S. government agencies	3,269	(1)	3,143	3,127	99	(16)	100	—	—	—	—
Foreign covered bonds (d)	2,976	(8)	3,066	3,054	100	(12)	100	—	—	—	—
State and political subdivisions	2,646	(13)	2,372	2,352	99	(20)	78	18	—	—	4
Non-agency RMBS (e)	1,621	(17)	1,265	1,529	121	264	7	9	10	64	10
Non-agency commercial MBS	1,391	1	1,484	1,473	99	(11)	96	4	—	—	—
Corporate bonds	1,146	(1)	1,140	1,118	98	(22)	12	72	16	—	—
Other (f)	4,484	(3)	4,480	4,464	100	(16)	98	—	—	—	2
Total securities	\$118,501 (g)	\$(367)	\$119,546	\$118,093 (g)	99	%(1,453) (g)(h)	94	%2	%3	%1	%—

(a) Amortized cost reflects historical impairments.

(b) Represents ratings by S&P or the equivalent.

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

(d) Primarily consists of exposure to Canada, UK, Australia and Sweden.

(e) Includes residential mortgage-backed securities ("RMBS") that were included in the former Grantor Trust of \$943 million at June 30, 2018 and \$889 million at Sept. 30, 2018.

(f) Includes commercial paper with a fair value of \$699 million at June 30, 2018. There was no commercial paper at Sept. 30, 2018.

(g) Includes net unrealized gains on derivatives hedging securities available-for-sale of \$373 million at June 30, 2018 and \$593 million at Sept. 30, 2018.

(h) Unrealized losses of \$311 million at Sept. 30, 2018 related to available-for-sale securities, net of hedges.

The fair value of our securities portfolio, including related hedges, was \$118.1 billion at Sept. 30, 2018, compared with \$119.9 billion at Dec. 31, 2017. The decrease primarily reflects declines in sovereign debt/sovereign guaranteed securities, other securities driven by the reclassification of money market fund investments to trading assets and securities issued by states and political subdivisions, partially offset by increases in agency commercial

mortgage-backed and U.S. government agency securities.

At Sept. 30, 2018, the total securities portfolio had a net unrealized loss of \$1.5 billion, compared with a net unrealized loss of \$85 million at Dec. 31, 2017,

including the impact of related hedges. The increase in the net unrealized pre-tax loss was primarily driven by higher interest rates.

The unrealized loss, net of tax, on our available-for-sale securities portfolio included in accumulated other comprehensive income (“OCI”) was \$228 million at Sept. 30, 2018, compared with an unrealized gain of \$184 million at Dec. 31, 2017.

At Sept. 30, 2018, 94% of the securities in our portfolio were rated AAA/AA-, compared with 93% at Dec. 31, 2017.

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

Net premium amortization and discount accretion of securities (a) (dollars in millions)	3Q18	2Q18	1Q18	4Q17	3Q17
Amortizable purchase premium (net of discount) relating to securities:					
Balance at period end	\$1,536	\$1,642	\$1,827	\$1,987	\$2,053
Estimated average life remaining at period end (in years)	5.2	5.3	5.2	5.0	5.0
Amortization	\$108	\$115	\$122	\$135	\$140
Accretable discount related to the prior restructuring of the securities portfolio:					
Balance at period end	\$224	\$239	\$250	\$274	\$302
Estimated average life remaining at period end (in years)	6.3	6.3	6.3	6.3	6.5
Accretion	\$20	\$24	\$25	\$26	\$24
(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.					

We routinely test our securities for OTTI. See “Critical accounting estimates” for additional information regarding OTTI.

On a quarterly basis, we perform our impairment analysis using several factors, including projected loss severities and default rates. In the third quarter of 2018, this analysis resulted in other-than-temporary credit losses of less than \$1 million, primarily in our non-agency RMBS portfolio. At Sept. 30, 2018, if we were to increase or decrease each of our projected loss severity and default rates by 100 basis points on each of the positions in our

non-agency RMBS portfolio, 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.

See Note 4 of the Notes to Consolidated Financial Statements for the pre-tax net securities gains (losses) by security type. 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 (in billions)	Sept. 30, 2018			Dec. 31, 2017		
	Loans	Unfunded commitments	Total exposure	Loans	Unfunded commitments	Total exposure
Non-margin loans:						
Financial institutions	\$10.4	\$34.0	\$44.4	\$13.1	\$32.5	\$45.6
Commercial	2.1	15.3	17.4	2.9	18.0	20.9
Subtotal institutional	12.5	49.3	61.8	16.0	50.5	66.5
Wealth management loans and mortgages	16.0	0.9	16.9	16.5	1.1	17.6
Commercial real estate	5.0	3.6	8.6	4.9	3.5	8.4
Lease financings	1.3	—	1.3	1.3	—	1.3
Other residential mortgages	0.6	—	0.6	0.7	—	0.7
Overdrafts	3.8	—	3.8	5.1	—	5.1
Other	1.3	—	1.3	1.2	—	1.2
Subtotal non-margin loans	40.5	53.8	94.3	45.7	55.1	100.8

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Margin loans	13.5	—	13.5	15.8	—	15.8
Total	\$54.0	\$ 53.8	\$ 107.8	\$61.5	\$ 55.1	\$ 116.6

At Sept. 30, 2018, total exposures of \$107.8 billion decreased 8% compared with Dec. 31, 2017, primarily reflecting lower exposure in the

commercial, margin loan and financial institutions portfolios as well as lower overdrafts.

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Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios comprised 57% of our total exposure at

both Sept. 30, 2018 and Dec. 31, 2017. Additionally, most of our overdrafts relate to financial institutions.

Financial institutions

The financial institutions portfolio is shown below.

Financial institutions portfolio exposure (dollars in billions)	Sept. 30, 2018					Dec. 31, 2017				
	Loans	Unfunded commitments	Total exposure	% Inv. grade	% due <1 yr.	Loans	Unfunded commitments	Total exposure		
Securities industry	\$2.3	\$ 21.4	\$ 23.7	99	%99	\$3.6	\$ 19.2	\$ 22.8		
Asset managers	1.3	6.3	7.6	98	85	1.4	6.4	7.8		
Banks	5.9	1.3	7.2	69	93	7.0	1.2	8.2		
Insurance	0.1	3.1	3.2	100	11	0.1	3.5	3.6		
Government	0.1	0.5	0.6	100	48	0.1	0.9	1.0		
Other	0.7	1.4	2.1	97	62	0.9	1.3	2.2		
Total	\$10.4	\$ 34.0	\$ 44.4	94	%87	\$13.1	\$ 32.5	\$ 45.6		

The financial institutions portfolio exposure was \$44.4 billion at Sept. 30, 2018, a 3% decrease compared with \$45.6 billion at Dec. 31, 2017, primarily reflecting lower exposure in the banks, insurance and government portfolios, partially offset by an increase in securities industry exposure.

Financial institution exposures are high-quality, with 94% of the exposures meeting the investment grade equivalent criteria of our internal credit rating classification at Sept. 30, 2018. 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, 87% expire within one year and 64% expire within 90 days. In addition, 80% of the financial institutions exposure is secured. For example, securities industry clients and asset managers often borrow against marketable securities held in custody.

For ratings of non-U.S. counterparties, 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.

At Sept. 30, 2018, the secured intraday credit provided to dealers in connection with their tri-party repo activity totaled \$20.9 billion and was primarily included in the securities industry portfolio. Dealers secure the outstanding intraday credit with high-quality liquid collateral having a market value in excess of the amount of the outstanding credit.

Our bank exposure primarily relates to our global trade finance. These exposures are short-term in nature, with 93% due in less than one year. The investment grade percentage of our bank exposure was 69% at Sept. 30, 2018, compared with 68% at Dec. 31, 2017. Our non-investment grade exposures are primarily to Brazil and Turkey. These loans are primarily trade finance loans and syndicated credit facilities.

The asset manager portfolio exposure was high-quality, with 98% of the exposures meeting our investment grade equivalent ratings criteria as of Sept. 30, 2018. These exposures are generally short-term liquidity facilities, with the

majority to regulated mutual funds.

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Commercial

The commercial portfolio is presented below.

Commercial portfolio exposure	Sept. 30, 2018					Dec. 31, 2017		
(dollars in billions)	Loans	Unfunded commitments	Total exposure	% Inv. grade	% due <1 yr.	Loans	Unfunded commitments	Total exposure
Manufacturing	\$0.9	\$5.2	\$6.1	95	9	% \$1.3	\$6.1	\$7.4
Services and other	0.6	4.7	5.3	97	27	0.9	6.0	6.9
Energy and utilities	0.5	4.2	4.7	95	12	0.7	4.4	5.1
Media and telecom	0.1	1.2	1.3	94	9	—	1.5	1.5
Total	\$2.1	\$15.3	\$17.4	95	15	% \$2.9	\$18.0	\$20.9

The commercial portfolio exposure was \$17.4 billion at Sept. 30, 2018, a 17% decrease compared with \$20.9 billion at Dec. 31, 2017, primarily reflecting lower exposure in the services and other and manufacturing portfolios.

Utilities-related exposure represents approximately 77% of the energy and utilities portfolio at Sept. 30, 2018. The remaining exposure in the energy and utilities portfolio, which includes exposure to refining, exploration and production companies, integrated companies and pipelines, was 82% investment grade at Sept. 30, 2018, and 77% at Dec. 31, 2017.

Our credit strategy is to focus on investment grade clients that are active users of our non-credit services. The following table 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, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017	Sept. 30, 2017
Financial institutions	94	%94	%93	%93	%93
Commercial	95	%96	%95	%95	%95

Wealth management loans and mortgages

Our wealth management exposure was \$16.9 billion at Sept. 30, 2018, compared with \$17.6 billion at Dec. 31, 2017. 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 62% at origination. Less than 1% of the mortgages were past due at Sept. 30, 2018.

At Sept. 30, 2018, the wealth management mortgage portfolio consisted of the following geographic concentrations: California - 24%; New York - 18%; Massachusetts - 11%; Florida - 8%; and other - 39%.

Commercial real estate

Our commercial real estate exposure totaled \$8.6 billion at Sept. 30, 2018, compared with \$8.4 billion at Dec. 31, 2017. 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.

At Sept. 30, 2018, 58% of our commercial real estate portfolio was secured. The secured portfolio is diverse by project type, with 42% secured by residential buildings, 36% secured by office buildings, 13% secured by retail properties and 9% secured by other categories. Approximately 98% of the unsecured portfolio consists of real estate investment trusts ("REITs") and real estate operating companies, which are both predominantly investment grade.

At Sept. 30, 2018, our commercial real estate portfolio consists of the following concentrations:

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REITs and real estate operating companies - 41%; New York metro - 39%; and other - 20%.

Lease financings

The leasing portfolio exposure totaled \$1.3 billion at both Sept. 30, 2018 and Dec. 31, 2017. At Sept. 30, 2018, the lease financings portfolio consisted of exposures backed by well-diversified assets, including large-ticket transportation equipment, and approximately 96% of the leasing portfolio exposure was investment grade, or investment grade equivalent.

Other residential mortgages

The other residential mortgages portfolio primarily consists of 1-4 family residential mortgage loans and totaled \$623 million at Sept. 30, 2018 and \$708 million at Dec. 31, 2017. Included in this portfolio at Sept. 30, 2018 are \$140 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, 2018, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 76% at origination and 12% 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 primarily in the custody and securities clearance business and are generally repaid within two business days.

Other loans

Other loans primarily include 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 \$2.3 billion at Sept. 30, 2018 and \$4.2 billion at Dec. 31, 2017 related to a term loan program that offers fully collateralized loans to broker-dealers.

Asset quality and allowance for credit losses

Our credit strategy is to focus on investment grade clients who are active users of our non-credit services. Our primary exposure to the credit risk of a customer consists of funded loans, unfunded contractual commitments to lend, standby letters of credit ("SBLC") and overdrafts associated with our custody and securities clearance businesses.

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

Allowance for credit losses activity (dollars in millions)	Sept. 30, 2018	June 30, 2018	Dec. 31, 2017	Sept. 30, 2017
Non-margin loans	\$40,519	\$42,719	\$45,755	\$45,196
Margin loans	13,468	15,057	15,785	13,872
Total loans	\$53,987	\$57,776	\$61,540	\$59,068
Beginning balance of allowance for credit losses	\$254	\$256	\$265	\$270
Provision for credit losses	(3)	(3)	(6)	(6)
Net recoveries:				
Other residential mortgages	—	1	2	1
Net recoveries	—	1	2	1
Ending balance of allowance for credit losses	\$251	\$254	\$261	\$265
Allowance for loan losses	\$140	\$145	\$159	\$161
Allowance for lending-related commitments	111	109	102	104
Allowance for loan losses as a percentage of total loans	0.26	%0.25	%0.26	%0.27
Allowance for loan losses as a percentage of non-margin loans	0.35	0.34	0.35	0.36
Total allowance for credit losses as a percentage of total loans	0.46	0.44	0.42	0.45
Total allowance for credit losses as a percentage of non-margin loans	0.62	0.59	0.57	0.59

The allowance for credit losses decreased \$10 million compared with Dec. 31, 2017 and \$14 million compared with Sept. 30, 2017. Both decreases were driven by the credit to provision for credit losses, partially offset by the impact of an update to the usage given default parameter in the second quarter of 2018. The usage given default parameter associated with the estimate of the probability of drawdown at default was updated, resulting in an \$11 million increase to the allowance for lending-related commitments in the second quarter of 2018.

We had \$13.5 billion of secured margin loans on our balance sheet at Sept. 30, 2018 compared with \$15.8 billion at Dec. 31, 2017 and \$13.9 billion at Sept. 30, 2017. 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 losses inherent in our credit portfolio. This evaluation process is subject to numerous estimates and judgments. 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 2017 Annual Report, we have allocated our allowance for credit losses as follows.

Allocation of allowance	Sept. 30, 2018	June 30, 2018	Dec. 31, 2017	Sept. 30, 2017
Commercial	30	%30	%30	%31
Commercial real estate	29	29	29	28
Foreign	13	13	13	13
Financial institutions	10	10	9	9
Wealth management (a)	9	9	8	8

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Other residential mortgages	7	7	8	8	
Lease financing	2	2	3	3	
Total	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 losses.

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 \$61 million, while if each credit were rated one grade worse, the allowance would have increased by \$100 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by \$39 million, while if the loss given default were one rating better, the allowance would have decreased by \$28 million. For impaired credits, if the net carrying value of the loans was 10% higher or lower, the allowance would have decreased or increased by less than \$1 million, respectively.

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Nonperforming assets

Total nonperforming assets were \$81 million at Sept. 30, 2018 compared with \$90 million at Dec. 31, 2017. The decrease primarily reflects lower other residential mortgage loans driven by paydowns and sales. See Note 5 of the Notes to Consolidated Financial Statements for additional information on nonperforming assets.

Deposits

Total deposits were \$231.6 billion at Sept. 30, 2018, a decrease of 5% compared with \$244.3 billion at Dec. 31, 2017. The decrease primarily reflects lower interest-bearing deposits in non-U.S. offices and noninterest-bearing deposits principally in U.S. offices, partially offset by higher interest-bearing deposits in U.S. offices.

Noninterest-bearing deposits were \$65.8 billion at Sept. 30, 2018 compared with \$82.7 billion at Dec. 31, 2017. Interest-bearing deposits were \$165.8 billion at Sept. 30, 2018 compared with \$161.6 billion at Dec. 31, 2017.

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” for a discussion of long-term debt and liquidity metrics that we monitor.

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

Federal funds purchased and securities sold under repurchase agreements

(dollars in millions)	Quarter ended			
	Sept. 30, 2018	June 30, 2018	Sept. 30, 2017	
Maximum month-end balance during the quarter	\$13,020	\$14,138	\$21,850	
Average daily balance (a)	\$14,199	\$18,146	\$21,403	
Weighted-average rate during the quarter (a)	5.33	% 3.48	% 1.30	%
Ending balance (b)	\$10,158	\$13,200	\$10,314	
Weighted-average rate at period end (b)	7.33	% 4.24	% 1.35	%

(a) Includes the impact of offsetting under enforceable netting agreements of \$25,922 million for the third quarter of 2018, \$17,975 million for the second quarter of 2018 and \$6,518 million for the third quarter of 2017.

(b) Includes the impact of offsetting under enforceable netting agreements of \$58,540 million at Sept. 30, 2018, \$36,766 million at June 30, 2018 and \$19,171 million at Sept. 30, 2017.

Fluctuations of federal funds purchased and securities sold under repurchase agreements between periods reflect changes in overnight borrowing opportunities. The increase in the weighted-average rates, compared with both June 30, 2018 and Sept. 30, 2017, primarily reflects the impact of offsetting under enforceable netting agreements on the balance sheet and higher interest rates.

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

Payables to customers and broker-dealers

(dollars in millions)	Quarter ended			
	Sept. 30, 2018	June 30, 2018	Sept. 30, 2017	
Maximum month-end balance during the quarter	\$19,232	\$20,349	\$21,563	
Average daily balance (a)	\$19,073	\$19,402	\$21,280	
Weighted-average rate during the quarter (a)	1.23	% 1.10	% 0.42	%
Ending balance	\$18,683	\$19,123	\$21,176	
Weighted-average rate at period end	1.30	% 1.08	% 0.43	%

The weighted-average rate is calculated based on, and is applied to, the average interest-bearing payables to (a) customers and broker-dealers, which were \$16,252 million in the third quarter of 2018, \$16,349 million in the second quarter of 2018 and \$18,516 million in the third quarter of 2017.

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.

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Information related to commercial paper is presented below.

Commercial paper (dollars in millions)	Quarter ended			
	Sept. 30, 2018	June 30, 2018	Sept. 30, 2017	
Maximum month-end balance during the quarter	\$4,422	\$4,470	\$4,277	
Average daily balance	\$3,102	\$3,869	\$2,736	
Weighted-average rate during the quarter	2.10	% 2.13	% 1.15	%
Ending balance	\$735	\$2,508	\$2,501	
Weighted-average rate at period end	2.06	% 2.24	% 1.18	%

The Bank of New York Mellon, our largest bank subsidiary, issues commercial paper that matures within 397 days from date of issue and is not redeemable prior to maturity or subject to voluntary prepayment. The decrease in the commercial paper ending balance, compared with both June 30, 2018 and Sept. 30, 2017, primarily reflects management of overall liquidity. The increase in weighted-average rates, compared with the third quarter of 2017, primarily reflects increases in the Fed Funds effective rate and the issuance of higher-yielding term commercial paper.

Information related to other borrowed funds is presented below.

Other borrowed funds (dollars in millions)	Quarter ended			
	Sept. 30, 2018	June 30, 2018	Sept. 30, 2017	
Maximum month-end balance during the quarter	\$3,269	\$3,053	\$3,353	
Average daily balance	\$2,747	\$2,399	\$2,197	
Weighted-average rate during the quarter	2.33	% 2.40	% 1.38	%
Ending balance	\$2,934	\$3,053	\$3,353	
Weighted-average rate at period end	2.48	% 2.53	% 1.56	%

Other borrowed funds primarily include borrowings from the Federal Home Loan Bank (“FHLB”), overdrafts of sub-custodian account balances in our Investment Services businesses, capital lease obligations and borrowings under lines of credit by our Pershing subsidiaries. Overdrafts typically relate to timing differences for settlements. The decrease in the ending balance of other borrowed funds, compared with Sept. 30, 2017 primarily reflects a decline in overdrafts and lower capital lease obligations due the purchase of the leased asset,

partially offset by an increase in borrowings from the FHLB.

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 roll over or issue new debt, especially during periods of market stress, at a reasonable cost and in order to meet its short-term (up to one year) obligations. Funding 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 flow and collateral needs without adversely affecting daily operations or our financial condition. Funding liquidity risk can arise from funding mismatches, market constraints from the inability to convert assets to cash, the inability to hold or raise cash, low overnight deposits, deposit run-off or contingent liquidity events.

We also manage liquidity risks on an intraday basis. Intraday liquidity risk is the risk that BNY Mellon cannot access funds during the business day to make payments or settle immediate obligations, usually in real time. Intraday liquidity risk can arise from timing mismatches, market constraints from the inability to convert assets to cash, the inability to raise cash intraday, low overnight deposits and/or adverse stress 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.

The Parent's policy is to have access to sufficient unencumbered cash and cash equivalents at each quarter-end to cover forecasted debt redemptions, net interest payments and net tax payments for the following 18-month period, and to provide sufficient collateral to satisfy transactions subject to Section 23A of the Federal Reserve Act. As of Sept. 30, 2018, the Parent was in compliance with this policy. For additional information on our liquidity policy, see "Risk Management - Liquidity risk" in our 2017 Annual Report. Our overall approach to liquidity management is further described in "Liquidity and dividends" in our 2017 Annual Report.

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 following table presents our total available funds, including liquid funds, at period end and on an average basis.

Available and liquid funds (in millions)	Sept. 30, 2018	Dec. 31, 2017	Average 3Q18	2Q18	3Q17	
Available funds:						
Liquid funds:						
Interest-bearing deposits with banks	\$14,519	\$11,979	\$14,691	\$15,748	\$15,899	
Federal funds sold and securities purchased under resale agreements	28,722	28,135	26,738	28,051	28,120	
Total liquid funds	43,241	40,114	41,429	43,799	44,019	
Cash and due from banks	5,047	5,382	5,000	4,916	4,961	
Interest-bearing deposits with the Federal Reserve and other central banks	74,725	91,510	61,216	69,676	70,430	
Total available funds	\$123,013	\$137,006	\$107,645	\$118,391	\$119,410	
Total available funds as a percentage of total assets	35	%37	%32	%34	%35	%

We had \$43.2 billion of liquid funds at Sept. 30, 2018 and \$40.1 billion at Dec. 31, 2017. Of the \$43.2 billion in liquid funds held at Sept. 30, 2018, \$14.5 billion was placed in interest-bearing deposits with large, highly-rated global financial institutions with a weighted-average life to maturity of approximately 20 days. Of the \$14.5 billion, \$2.1 billion was placed with banks in the Eurozone.

Total available funds were \$123.0 billion at Sept. 30, 2018, compared with \$137.0 billion at Dec. 31, 2017. The decrease was primarily due to a decrease in interest-bearing deposits with the Federal Reserve and other central banks.

Average non-core sources of funds, such as federal funds purchased and securities sold under repurchase agreements, trading liabilities, commercial paper and other borrowed funds, were \$24.2 billion for the nine months ended Sept. 30, 2018 and \$24.4 billion for the nine months ended Sept. 30, 2017. The decrease primarily reflects a decrease in federal funds purchased and securities sold under repurchase agreements, partially offset by an increase in other borrowed funds and commercial paper.

Average foreign deposits, primarily from our European-based Investment Services business, were \$97.7 billion for the nine months ended Sept. 30, 2018, compared with \$94.1 billion for the nine months ended Sept. 30, 2017. Average interest-bearing domestic deposits were \$54.6 billion for the nine months ended Sept. 30, 2018 and \$47.5 billion for the nine months ended Sept. 30, 2017. The

increase primarily reflects an increase in demand deposits.

Average payables to customers and broker-dealers were \$16.6 billion for the nine months ended Sept. 30, 2018 and \$19.4 billion for the nine months ended Sept. 30, 2017. Payables to customers and broker-dealers are driven by customer trading activity and market volatility.

Average long-term debt was \$28.3 billion for the nine months ended Sept. 30, 2018 and \$27.1 billion for the nine months ended Sept. 30, 2017, with the increase primarily reflecting issuances of long-term debt.

Average noninterest-bearing deposits decreased to \$65.4 billion for the nine months ended Sept. 30, 2018 from \$72.5 billion for the nine months ended Sept. 30, 2017, reflecting a decrease 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.

Sources of liquidity

The Parent’s three major sources of liquidity are access to the debt and equity markets, dividends from its subsidiaries, and cash on hand and cash otherwise made available in business-as-usual circumstances to the Parent through a committed credit facility with our intermediate holding company (“IHC”).

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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 at Sept. 30, 2018

	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)
Outlook - Parent:	Stable	Stable	Stable	Stable

The Bank of New York Mellon:

Long-term senior debt	Aa2	AA-	AA	AA
Subordinated debt	Aa3	A	A+	NR
Long-term deposits	Aa1	AA-	AA+	AA
Short-term deposits	P1	A-1+	F1+	R-1 (high)
Commercial paper	P1	A-1+	F1+	R-1 (high)

BNY Mellon, N.A.:

Long-term senior debt	Aa2	AA-	AA	(a) AA
Long-term deposits	Aa1	AA-	AA+	AA
Short-term deposits	P1	A-1+	F1+	R-1 (high)

Outlook - Banks: Stable Stable Stable Stable

(a) Represents senior debt issuer default rating.

NR - Not rated.

Long-term debt totaled \$28.1 billion at Sept. 30, 2018 and \$28.0 billion at Dec. 31, 2017. The balance reflects issuances of \$4.2 billion, offset by maturities of \$3.4 billion and a decrease in the fair value of hedged long-term debt. The Parent has \$250 million of long-term debt that will mature in the fourth quarter of 2018.

In August 2018, we issued \$750 million of fixed rate senior notes maturing in 2023 at an annual interest rate of 3.45% and \$400 million of fixed rate senior notes maturing in 2028 at an annual interest rate of 3.85%.

In the second quarter of 2018, BNY Mellon established programs for the issuance of notes and certificates of deposit ("CDs") issued by The Bank of New York Mellon, our largest bank subsidiary. These programs are designed to improve diversity of our funding sources and provide additional flexibility in our liquidity planning. There were no notes or CDs issued through these programs in the third quarter of 2018.

The Bank of New York Mellon, our largest bank subsidiary, issues commercial paper that matures within 397 days from date of issue and is not redeemable prior to maturity or subject to voluntary prepayment. The average commercial paper borrowings were \$3.1 billion for the three months

ended Sept. 30, 2018 and \$2.7 billion for the three months ended Sept. 30, 2017. Commercial paper outstanding was \$735 million at Sept. 30, 2018 and \$3.1 billion at Dec. 31, 2017.

Subsequent to Sept. 30, 2018, our U.S. bank subsidiaries could declare dividends to the Parent of approximately \$4.8 billion, without the need for a regulatory waiver. In addition, at Sept. 30, 2018, non-bank subsidiaries of the Parent had liquid assets of approximately \$1.7 billion. 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 17 of the Notes to Consolidated Financial Statements in our 2017 Annual Report.

Pershing LLC 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. There were no borrowings under these lines in the third quarter of 2018. Pershing Limited, an indirect UK-based subsidiary of BNY Mellon, has two separate uncommitted lines of credit amounting to \$250 million in aggregate. Average borrowings under these lines were \$1 million, in aggregate, in the third quarter of 2018.

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The double leverage ratio is the ratio of our equity investment in subsidiaries divided by our consolidated parent company equity, which includes our noncumulative perpetual preferred stock. In short, the double leverage ratio measures the extent to which equity in subsidiaries is financed by Parent company debt. As the double leverage ratio increases, this can reflect greater demands on a company's cash flows in order to service interest payments and debt maturities. BNY Mellon's double leverage ratio is managed in a range considering the high level of unencumbered available liquid assets held in its principal subsidiaries (such as central bank deposits and government securities), the Company's cash generating fee-based business model, with fee revenue representing 78% of total revenue in the third quarter of 2018, and the dividend capacity of our banking subsidiaries. Our double leverage ratio was 120.0% at Sept. 30, 2018 and 122.5% at Dec. 31, 2017, and within the range targeted by management.

Uses of funds

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 its subsidiaries.

In August 2018, a quarterly cash dividend of \$0.28 per common share was paid to common shareholders. Our common stock dividend payout ratio was 24% for the first nine months of 2018.

In the third quarter of 2018, we repurchased 12 million common shares at an average price of \$51.50 per common share for a total cost of \$602 million.

Liquidity coverage ratio

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

The following table presents the consolidated HQLA at Sept. 30, 2018, and the average HQLA and average LCR for the third quarter of 2018.

Consolidated HQLA and LCR	Sept.
(dollars in billions)	30,
	2018
Securities (a)	\$106
Cash (b)	68
Total consolidated HQLA (c)	\$174

Total consolidated HQLA - average (c) \$158

Average LCR 121 %

(a) Primarily includes securities of U.S. government-sponsored enterprises, U.S. Treasury, sovereign securities, U.S. agency and investment-grade corporate debt.

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

(c) Consolidated HQLA presented before adjustments. After haircuts and the impact of trapped liquidity, consolidated HQLA totaled \$130 billion at Sept. 30, 2018 and averaged \$117 billion for the third quarter of 2018.

The U.S. LCR rule requires BNY Mellon and each of our affected domestic bank subsidiaries to meet an LCR of at least 100%. BNY Mellon and each of our affected domestic bank subsidiaries were compliant with the U.S. LCR requirements throughout the first nine months of 2018.

We also perform liquidity stress tests (“LSTs”) to evaluate whether the Company and certain domestic bank subsidiaries maintain sufficient liquidity resources under multiple stress scenarios. LSTs are based on scenarios that measure liquidity risks under unlikely but plausible conditions. 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 and certain domestic subsidiaries’ liquidity is sufficient for severe market events and firm-specific events. The Parent’s LST framework includes a test known as the Resolution Liquidity Adequacy and Positioning (“RLAP”). The RLAP test is designed to ensure that the liquidity needs of certain key subsidiaries in a stress environment can be met by available resources held at the entity or at the Parent or IHC, as applicable. Under our scenario testing program, the results of the tests indicate that we have sufficient liquidity.

Statement of cash flows

The following summarizes the activity reflected on the consolidated statement of cash flows. While this information may be helpful to highlight certain macro trends and business strategies, the cash flow analysis may not be as relevant when analyzing changes in our net earnings and net assets. We believe that in addition to the traditional cash flow analysis, the discussion related to liquidity and dividends and

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asset/liability management herein may provide more useful context in evaluating our liquidity position and related activity.

Net cash provided by operating activities was \$2.8 billion in the nine months ended Sept. 30, 2018, compared with \$3.4 billion in the nine months ended Sept. 30, 2017. In the first nine months of 2018, net cash provided by operations primarily resulted from earnings, partially offset by changes in trading activities. In the first nine months of 2017, net cash provided by operations was principally the result of earnings.

Net cash provided by investing activities was \$18.0 billion in the nine months ended Sept. 30, 2018, compared with net cash used for investing activities of \$13.5 billion in the nine months ended Sept. 30, 2017. In the first nine months of 2018, net cash provided by investing activities primarily reflects changes in interest-bearing deposits with the Federal Reserve and other central banks and changes in loans,

partially offset by changes in interest-bearing deposits with banks. In the first nine months of 2017, changes in interest-bearing deposits with the Federal Reserve and other central banks was a significant use of funds.

Net cash used for financing activities was \$21.6 billion in the nine months ended Sept. 30, 2018, compared with net cash provided by financing activities of \$11.2 billion in the nine months ended Sept. 30, 2017. In the first nine months of 2018, net cash used for financing activities primarily reflects changes in deposits, changes in federal funds purchased and securities sold under repurchase agreements, repayment of long-term debt, a decrease in commercial paper and common stock repurchases, partially offset by net proceeds from the issuance of long-term debt. In the first nine months of 2017, the proceeds from the issuance of long-term debt, changes in deposits and increases in commercial paper and other borrowed funds were significant sources of funds, partially offset by common stock repurchases.

Capital

Capital data

(dollars in millions

except per share Sept. 30, 2018

June 30, 2018

Dec. 31, 2017

amounts; common

shares in thousands)

Average common

equity to average 11.4

%

10.9

%

10.5

%

assets

At period end:

BNY Mellon

shareholders' equity 11.9

%

11.8

%

11.1

%

to total assets ratio

BNY Mellon

common 10.9

%

10.8

%

10.1

%

to total assets ratio

Total BNY Mellon

shareholders' equity \$ 41,560

\$ 41,505

\$ 41,251

Total BNY Mellon

common \$ 38,018

\$ 37,963

\$ 37,709

shareholders' equity

shareholders' equity

(a)							
BNY Mellon							
tangible common shareholders' equity –	\$	19,135		\$	19,000		\$ 18,486
Non-GAAP (a)							
Book value per common share (a)	\$	38.45		\$	37.97		\$ 37.21
Tangible book value per common share –	\$	19.35		\$	19.00		\$ 18.24
Non-GAAP (a)							
Closing stock price per common share	\$	50.99		\$	53.93		\$ 53.86
Market capitalization	\$	50,418		\$	53,927		\$ 54,584
Common shares outstanding		988,777			999,945		1,013,442
Cash dividends per common share	\$	0.28		\$	0.24		\$ 0.24
Common dividend payout ratio	26	%		23	%		22 %
Common dividend yield (annualized)	2.2	%		1.8	%		1.8 %

(a) See “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 41 for a reconciliation of GAAP to Non-GAAP.

The Bank of New York Mellon Corporation total shareholders' equity increased to \$41.6 billion at Sept. 30, 2018 from \$41.3 billion at Dec. 31, 2017. The increase primarily reflects earnings, partially offset by common stock repurchases, dividend payments and unrealized losses on securities available-for-sale.

In the third quarter of 2018, we repurchased 12 million common shares at an average price of \$51.50 per common share for a total cost of \$602 million under the current program.

The unrealized loss, net of tax, on our available-for-sale securities portfolio included in accumulated OCI

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was \$228 million at Sept. 30, 2018, compared with a net unrealized gain of \$184 million at Dec. 31, 2017. The decrease in the unrealized gain, net of tax, was primarily driven by higher interest rates.

Capital adequacy

Regulators establish certain levels of capital for BHCs 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 U.S. bank subsidiaries and BNY Mellon must, among other things, qualify as “well capitalized.” As of Sept. 30, 2018 and Dec. 31, 2017, BNY Mellon and our U.S. bank subsidiaries were “well capitalized.”

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 “Supervision and Regulation - Regulated Entities of BNY Mellon

and Ancillary Regulatory Requirements” and “Risk Factors - Operational Risk - Failure to satisfy regulatory standards, including “well capitalized” and “well managed” status or capital adequacy and liquidity rules more generally, could result in limitations on our activities and adversely affect our business and financial condition” in our 2017 Annual Report.

The U.S. banking agencies’ capital rules are based on the framework adopted by 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 2017 Annual Report. BNY Mellon is subject to the U.S. capital rules, which are being gradually phased-in over a multi-year period through Jan. 1, 2019. The phase-in requirements for capital were completed on Jan. 1, 2018.

Our risk-based capital adequacy is determined using the higher of risk-weighted assets (“RWAs”) determined using the Advanced Approach and Standardized Approach.

The table below presents our consolidated and largest bank subsidiary regulatory capital ratios.

Consolidated and largest bank subsidiary regulatory capital ratios	Sept. 30, 2018	Minimum required	Capital (a) ratios	June 30, 2018	Dec. 31, 2017	Transitional (b)
Consolidated regulatory capital ratios: (c)(d)	Well capitalized				Fully phased-in	
Advanced Approach:						
CET1 ratio	N/A	(e) 7.5	% 11.2	% 11.0	% 10.3	% 10.7
Tier 1 capital ratio	6	% 9	13.3	13.1	12.3	12.7
Total capital ratio	10	% 11	14.1	13.8	13.0	13.4
Standardized Approach:						
CET1 ratio	N/A	(e) 7.5	% 12.4	% 11.9	% 11.5	% 11.9
Tier 1 capital ratio	6	% 9	14.7	14.1	13.7	14.2
Total capital ratio	10	% 11	15.7	15.1	14.7	15.1
Tier 1 leverage ratio	N/A	(e) 4	7.0	6.7	6.4	6.6
SLR (f)	N/A	(e) 5	6.4	6.1	5.9	6.1

The Bank of New York Mellon regulatory capital ratios: (c)

Advanced Approach:

CET1 ratio	6.5	% 6.375	% 14.9	% 14.9	% N/A	14.1
Tier 1 capital ratio	8	7.875	15.2	15.2	N/A	14.4
Total capital ratio	10	9.875	15.6	15.6	N/A	14.7
Tier 1 leverage ratio	5	4	8.2	7.9	N/A	7.6
SLR (f)	6	3	7.4	7.1	6.7	6.9

(a) Minimum requirements for Sept. 30, 2018 include minimum thresholds plus currently applicable buffers.

(b) Reflects transitional adjustments to CET1, Tier 1 capital, Tier 2 capital required in 2017 under the U.S. capital rules.

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 Tier 1 leverage ratio is based on Tier 1 capital and quarterly average total assets.

(d) See page 36 for the capital ratios with the phase-in of the capital conservation buffer and the U.S. G-SIB surcharge, as well as the introduction of the SLR buffer.

(e) The Federal Reserve's regulations do not establish well capitalized thresholds for these measures for BHCs.

(f) SLR became a binding measure on Jan. 1, 2018. The SLR is based on Tier 1 capital and total leverage exposure, which includes certain off-balance sheet exposures.

Our CET1 ratio determined under the Advanced Approach was 11.2% at Sept. 30, 2018 and 10.7%, on a transitional basis, at Dec. 31, 2017. The ratio increased compared to Dec. 31, 2017, primarily reflecting lower RWAs and capital generated through earnings, partially offset by the final phase-in requirements under the U.S. capital rules and the capital deployed through common stock repurchases and dividend payments.

Our SLR was 6.4% at Sept. 30, 2018 and 6.1%, on a transitional basis, at Dec. 31, 2017.

For additional information on the U.S. capital rules, see "Supervision and Regulation - Capital Requirements - Generally" in our 2017 Annual Report and "Recent regulatory developments" in our Quarterly Reports on Form 10-Q for the first and second quarters of 2018.

The Advanced Approach capital ratios are significantly impacted by RWAs for operational risk. 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.

Our capital ratios are necessarily subject to, among other things, anticipated compliance with all necessary enhancements to model calibration, approval by regulators of certain models used as part of RWA calculations, other refinements, further implementation guidance from regulators, market practices and standards and any changes BNY Mellon may make to its businesses. As a consequence of these factors, our capital ratios may materially change, and may be volatile over time and from period to period.

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The following table presents our capital components and RWAs.

Capital components and risk-weighted assets (in millions)	Dec. 31, 2017			
	Sept. 30, 2018	June 30, 2018	Fully phased-in	Transitional Approach ^(a)
CET1:				
Common shareholders' equity	\$38,018	\$37,963	\$37,709	\$37,859
Adjustments for:				
Goodwill and intangible assets (b)	(18,883)	)(18,963	)(19,223	)(18,684)
Net pension fund assets	(218)	)(216	)(211	)(169)
Equity method investments	(368)	)(363	)(387	)(372)
Deferred tax assets	(42)	)(41	)(41	)(33)
Other	10	6	(9	)(8)
Total CET1	18,517	18,386	17,838	18,593
Other Tier 1 capital:				
Preferred stock	3,542	3,542	3,542	3,542
Deferred tax assets	—	—	—	(8)
Net pension fund assets	—	—	—	(42)
Other	(57)	)(51	)(41	)(41)
Total Tier 1 capital	\$22,002	\$21,877	\$21,339	\$22,044
Tier 2 capital:				
Subordinated debt	\$1,250	\$1,250	\$1,250	\$1,250
Allowance for credit losses	251	254	261	261
Other	(6)	)(6	)(12	)(12)
Total Tier 2 capital – Standardized Approach	1,495	1,498	1,499	1,499
Excess of expected credit losses	53	53	31	31
Less: Allowance for credit losses	251	254	261	261
Total Tier 2 capital – Advanced Approach	\$1,297	\$1,297	\$1,269	\$1,269
Total capital:				
Standardized Approach	\$23,497	\$23,375	\$22,838	\$23,543
Advanced Approach	\$23,299	\$23,174	\$22,608	\$23,313
Risk-weighted assets:				
Standardized Approach	\$149,348	\$154,612	\$155,324	\$155,621
Advanced Approach:				
Credit Risk	\$93,499	\$95,888	\$101,366	\$101,681
Market Risk	3,988	3,804	3,657	3,657
Operational Risk	67,650	67,888	68,688	68,688
Total Advanced Approach	\$165,137	\$167,580	\$173,711	\$174,026

Average assets for Tier 1 leverage ratio \$312,779 \$326,700 \$330,894 \$331,600

Total leverage exposure for SLR \$341,566 \$355,773 \$360,543 \$361,249

^(a) Reflects transitional adjustments to CET1, Tier 1 capital, Tier 2 capital required in 2017 under the U.S. capital rules.

^(b) Reduced by deferred tax liabilities associated with intangible assets and tax deductible goodwill.

The table below presents the factors that impacted the CET1 capital.

CET1 generation	Sept.
(in millions)	30,
	2018
CET1 – Beginning of period	\$18,386
Net income applicable to common shareholders of The Bank of New York Mellon Corporation	1,075
Goodwill and intangible assets, net of related deferred tax liabilities	80
Gross CET1 generated	1,155
Capital deployed:	
Common stock dividends	(283)
Common stock repurchased	(602)
Total capital deployed	(885)
Other comprehensive income:	
Foreign currency translation	(58)
Unrealized loss on assets available-for-sale	(144)
Defined benefit plans	18
Unrealized gain on cash flow hedges	(4)
Total other comprehensive income	(188)
Additional paid-in capital (a)	53
Other (deductions) additions:	
Net pension fund assets	(2)
Deferred tax assets	(1)
Embedded goodwill	(5)
Other	4
Total other deductions	(4)
Net CET1 generated	131
CET1 – End of period	\$18,517

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

Minimum capital ratios and capital buffers

The U.S. capital rules include a series of buffers and surcharges over required minimums that apply to BHCs, 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 discretionary executive compensation based on the amount of the shortfall. Different regulatory capital buffers apply to our banking subsidiaries.

The following table presents the principal minimum capital ratio requirements with buffers and surcharges, as phased-in, applicable to the Parent and The Bank of New York Mellon. This table does not include the imposition of a countercyclical capital buffer. Buffers and surcharges are not applicable to the Tier 1 leverage ratio. These buffers, other than the SLR buffer, and surcharge will be fully implemented on Jan. 1, 2019.

Capital ratio requirements	Minimum ratios with buffers, as phased-in (a)	
	2018	2019
Well capitalized	Minimum ratios	
Capital conservation buffer (CET1)	1.875 %	2.5 %
U.S. G-SIB surcharge (CET1) (b)(c)	1.125 %	1.5 %

Consolidated:

CET1 ratio	N/A	4.5	% 7.5	% 8.5	%
Tier 1 capital ratio	6.0	% 6.0	% 9.0	% 10.0	%
Total capital ratio	10.0	% 8.0	% 11.0	% 12.0	%

Enhanced SLR buffer (Tier 1 capital)	N/A		2.0	% 2.0	%
SLR	N/A	3.0	% 5.0	% 5.0	%

Bank subsidiaries: (c)

CET1 ratio	6.5	% 4.5	% 6.375	% 7.0	%
Tier 1 capital ratio	8.0	% 6.0	% 7.875	% 8.5	%
Total capital ratio	10.0	% 8.0	% 9.875	% 10.5	%

SLR	6.0	% 3.0	% 6.0	% (d) 6.0	% (d)
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(a) Countercyclical capital buffer currently set to 0%.

(b) The fully phased-in U.S. G-SIB surcharge of 1.5% applicable to BNY Mellon is subject to change.

(c) The U.S. G-SIB surcharge is not applicable to the regulatory capital ratios of the bank subsidiaries.

(d) Well capitalized threshold.

The following table shows the impact on the consolidated capital ratios at Sept. 30, 2018 of a \$100 million increase or decrease in common equity, or a \$1 billion increase or decrease in RWAs, quarterly average assets or total leverage exposure.

Sensitivity of consolidated capital ratios at
Sept. 30, 2018

(in basis points)	Increase or decrease of \$1 billion in RWA, \$100 million in average common assets or equitytotal leverage exposure	
CET1:		
Standardized Approach	7 bps	8 bps
Advanced Approach	6	7
Tier 1 capital:		
Standardized Approach	7	10
Advanced Approach	6	8
Total capital:		
Standardized Approach	7	11
Advanced Approach	6	9
Tier 1 leverage	3	2
SLR	3	2

Capital ratios vary depending on the size of the balance sheet at quarter-end and the levels 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.

Trading activities and risk management

Our trading activities are focused on acting as a market-maker for our customers, facilitating customer trades and risk mitigating hedging 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, value-at-risk (“VaR”) methodology and other market sensitivity measures. VaR is the potential loss in value due to adverse market movements over a defined time horizon with a specified confidence level. The calculation of our VaR used by management and presented below assumes a one-day holding period, utilizes a 99% confidence level, and incorporates non-linear product characteristics. VaR

facilitates comparisons across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk at the firm-wide level.

VaR represents a key risk management measure and it is important to note the inherent limitations to VaR, which include:

- VaR does not estimate potential losses over longer time horizons where moves may be extreme;
- VaR does not take account of potential variability of market liquidity; and
- Previous moves in market risk factors may not produce accurate predictions of all future market moves.

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 using the historical simulation VaR model.

VaR (a)	3Q18		Sept.	
	Average	Minimum	Maximum	30, 2018
Interest rate	\$3.6	\$ 3.0	\$ 5.0	\$ 3.7
Foreign exchange	3.6			