PILLAR 3 DISCLOSURE
AS OF JUNE 30, 2014

THE BANK OF NEW YORK MELLON CORPORATION

BNY MELLON

THE BANK OF NEW YORK MELLON CORPORATION
PILLAR 3 DISCLOSURE REPORT
June 30, 2014
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Introduction

In this Pillar 3 disclosure report (this "Report"), 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. References in this Report to "Parent"or the "Holding Company" refer to The Bank of New York Mellon Corporation on a standalone basis. Certain business terms used in this Report are defined in the Glossary to this Report.

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK). BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of June 30, 2014, BNY Mellon had $28.5 trillion in assets under custody and/or administration, and $1.6 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

Basis of Presentation

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

There are no differences in the basis of consolidation between BNY Mellon's Annual Report on Form 10-K and Quarterly Report on Form 10-Q as filed with the Securities and Exchange Commission (the "SEC") and this Report.

Capital Guidelines and Proposals

Capital Requirements - Existing U.S. Requirements

As a bank holding company ("BHC"), we are subject to consolidated regulatory capital rules administered by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Our bank subsidiaries are subject to similar capital requirements administered by the Federal Reserve in the case of The Bank of New York Mellon and by the Office of the Comptroller of the Currency ("OCC") in the case of our national bank subsidiaries, BNY Mellon, N.A. and The Bank of New York Mellon Trust Company, National Association. These requirements are intended to ensure that banking organizations have adequate capital given the risk levels of their assets and off-balance sheet financial instruments.

Prior to 2014, the U.S. banking agencies' capital rules have been based on three main components:

- Risk-based capital rules applicable to all banking organizations based on the Basel Committee on Banking Supervision's (the "Basel Committee") 1988 agreement, *International Convergence of Capital and Measurement Standards* ("Basel I"). The banking agencies refer to these rules as the "general risk-based capital rules."
- Risk-based capital rules applicable to banking organizations having $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposures (including BNY Mellon), based upon the advanced internal ratings-based approach ("IRB") for credit risk and the advanced measurement approach for operational risk within the Basel Committee's comprehensive June 2006 release, *International Convergence of Capital Measurement and Capital Standards: A Revised Framework* ("Basel II"). The agencies refer to these rules as the "Advanced Approaches" risk-based capital rules.
- A Tier 1 leverage ratio that measures Tier 1 capital to quarterly average assets.

In addition, the risk-based capital rules incorporate a measure for market risk in foreign exchange and commodity activities and in the trading of debt and equity instruments. The market risk-based capital rules require banking organizations with significant trading activities to maintain capital for market risk in an amount calculated by using the banking organizations' own internal value-at-risk ("VaR") models, subject to parameters set by the regulators.

Advanced Approaches Risk-Based Capital Rules

The U.S. banking agencies' Advanced Approaches risk-based capital rules are based on Basel II's Advanced Approaches. On Feb. 21, 2014, the Federal Reserve announced that BNY Mellon had been approved to exit parallel run reporting for U.S.

regulatory capital purposes. As a result, on April 1 2014 BNY Mellon transitioned from the general risk-based capital rules to the Advanced Approaches, subject to ongoing qualification. For purposes of determining whether we meet minimum risk-based capital requirements, starting with the second quarter of 2014, our common equity Tier 1 ("CET1"), Tier 1, and total capital ratios are determined using the higher of the risk-weighted assets as calculated under the general risk-based capital rules (which use Basel I-based risk weighting for 2014 and the Final Capital Rules' new Standardized Approach commencing on Jan. 1, 2015) and under the Advanced Approach.

Capital Requirements - Basel III Final Capital Rules

In July 2013, the U.S. banking agencies approved revised capital regulations establishing a new comprehensive capital framework for U.S. banking organizations (the "Final Capital Rules"). The Final Capital Rules are largely based on the Basel Committee's December 2010 final capital framework for strengthening international capital standards, now officially identified by the Basel Committee as "Basel III", and also implement, through the new "Standardized Approach" discussed below, a revised calculation of risk-weighted assets ("RWA") that, effective Jan. 1, 2015, will replace the calculation of RWAs under the general risk-based capital rules. The Final Capital Rules, among other changes:

- Redefine the components of capital in the numerator of regulatory capital ratios in a more narrow way than existing standards and introduces a new capital ratio (namely, CET1);
- Increase certain of the minimum risk-based capital ratios under the general risk-based capital rules and the Advanced Approaches;
- Change the measure of RWAs in the denominator of the general risk-based capital rules according to the "Standardized Approach," so that the Standardized Approach is the new "general risk-based capital" standard;
- Change the measure of RWAs in denominator of the risk-based capital ratios in the agencies' Advanced Approaches rules;
- Establish a capital conservation buffer;
- Introduces a countercyclical capital buffer for banking organizations subject to the Advanced Approaches risk-based capital rules ("Advanced Approaches banking organizations"); and
- Establishes a supplementary leverage ratio ("SLR") for Advanced Approaches banking organizations.

The Final Capital Rules allow a graduated implementation schedule that began on Jan. 1, 2014 for Advanced Approaches banking organizations, including BNY Mellon and will be substantially phased-in by 2019. The applicable transition periods for the revised minimum regulatory capital ratios, definitions of regulatory capital, and regulatory capital adjustments and deductions also began on Jan. 1, 2014. In addition, BNY Mellon must begin using the new Standardized Approach risk-weightings on Jan. 1, 2015 and in 2014 it will use, along with other Advanced Approaches banking organizations, Basel I's risk-weightings in lieu of its Standardized Approach; meet the minimum ratios for the capital conservation buffer and countercyclical capital buffer during the transition period beginning on Jan. 1, 2016; and begin compliance with the new Basel III-based SLR on Jan. 1, 2018.

The Final Capital Rules do not address certain matters concerning financial institution capital, liquidity and related matters expected to be the subject of regulation in the near term. These items include U.S. implementation of capital surcharges for global systemically important banks ("G-SIBs") (for which BNY Mellon is expected to be a 1.0% surcharge), Basel III's liquidity standards, loss absorbency standards designed to facilitate a holding company "single point of entry" resolution under Title II of the Dodd-Frank Act, and capital charges designed to discourage overreliance on short-term wholesale funding practices.

New Minimum Capital Ratios and Capital Buffers

Consistent with the terms of the Basel III Framework and the Dodd-Frank Act, the Final Capital Rules require Advanced Approaches banking organizations to satisfy three minimum risk-based capital ratios using both the new Standardized Approach risk-weightings on Jan. 1, 2015 (during 2014 the Final Capital Rules look to Basel I's risk weightings in lieu of the Standardized Approach) and the Advanced Approach described above:

- a new **CET1** ratio of 4.0% as of Jan. 1, 2014, increasing to 4.5% beginning Jan. 1, 2015;
- a **Tier 1 capital ratio** of 5.5% on Jan. 1, 2014, increasing to 6.0% beginning Jan. 1, 2015

(increased from 4% under the general risk-based capital rules); and
- a **Total capital ratio** of 8.0% (unchanged from the general risk-based capital rules).

In addition, these minimum ratios will be supplemented by a new capital conservation buffer that phases in, beginning on Jan. 1, 2016, in increments of 0.625% per year until it reaches 2.5% on Jan. 1, 2019. BNY Mellon expects the 2.5% capital conservation buffer, as applied to it, to increase by an assumed additional G-SIB buffer applicable to BNY Mellon of 1%, noted above.

During periods of excessive growth the capital conservation buffer may be expanded up to an additional 2.5% through the imposition of a countercyclical capital buffer. The countercyclical capital buffer, when applicable, applies only to advanced approaches banking organizations. The countercyclical capital buffer is expected to be zero, but it could increase if the banking agencies determine that there is excessive credit in the markets that could lead to wide-spread market failure.

The capital conservation buffer is designed to absorb losses during periods of economic stress and applies to all banking organizations. Banking organizations with a ratio of CET1 capital to RWAs above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) are expected to face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

At June 30, 2014 our Basel III Advanced Approach CET1 ratio was 11.4%, on a transitional basis.

New Measure of Capital

The Final Capital Rules provide for a number of new deductions from and adjustments to CET1 capital. These include, for example, providing that unrealized gains and losses on all available for sale debt securities may not be filtered out for regulatory capital purposes, and the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1.

The Final Capital Rules redefine regulatory capital elements resulting in, among other things, cumulative perpetual preferred stock and trust preferred instruments no longer qualifying as Tier 1 capital, subject to a phase-out schedule. Non-qualifying capital instruments, such as trust preferred securities, that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 (and that are also outstanding on the effective date of the Final Capital Rules) may continue to be included in Tier 1 or Tier 2 capital up to the following percentages: calendar year 2014: 50%; calendar year 2015: 25%; and calendar year 2016 and later dates: 0%. Certain non-qualifying instruments no longer eligible for inclusion in Tier 1 capital may still be included in Tier 2 capital over a gradual phase-out schedule terminating in 2022. At June 30, 2014, BNY Mellon had $342 million of outstanding trust preferred securities. As noted in our "Capital Structure" table, total outstanding trust preferred is allocated between Tier 1 and Tier 2 capital according to the phase-out schedule for the calendar year of 2014.

New General Risk-Based Capital Rules: Standardized Approach

The Final Capital Rules amend the U.S. banking agencies' general risk-based capital rules, replacing the risk-weight categories used to calculate RWAs in the denominator of capital ratios with a broader array of risk weighting categories that are intended to be more risk sensitive, known as the "Standardized Approach." The new risk-weights for the Standardized Approach range from 0% to 1,250% compared with the risk-weights of 0% to 100%, in general, in the Basel I risk-based capital rules. Higher risk-weights would apply to a variety of exposures, including certain securitization exposures, equity exposures, claims on securities firms and exposures to counterparties on over-the-counter derivatives ("OTC"). Compared with Basel I, the risk weighting changes likely to have significance for BNY Mellon are the application of the collateral haircut approach to securities lending, the replacement of the 20% risk-weight for banks with Organization for economic co-operation and development ("OECD") country risk classification ratings, the increased risk-weights for securitizations, the removal of the 50% risk-weight cap on derivative transactions, application of a 1,250% risk-weight to certain default fund contributions and the elimination of the 0% risk-weight for commitments of less than one year.

Concerning securities finance transactions, including transactions in which we serve as agent and provide securities replacement indemnification to a securities lender, the Final Capital Rules do not permit a banking organization to use a simple VaR approach to calculate exposure amounts for repo-style transactions or to use internal models to calculate the exposure amount for the counterparty credit exposure for repo-style transactions under the Standardized Approach (although these methodologies are included in the Advanced Approaches, subject to approval by banking regulators of applicable models, for which BNY Mellon has requested written approval). Under the Standardized Approach, a banking organization may use a collateral haircut approach to recognize the credit risk mitigation benefits of financial collateral that secures a repo-style transaction, including an agented securities lending transaction, among other transactions. To apply the collateral haircut approach, a banking organization must determine the exposure amount and the relevant risk weight for the counterparty or guarantor. Banking organizations may calculate market price volatility and foreign exchange volatility using their own internal estimates with prior written approval of their primary Federal supervisor.

Tier 1 and Supplementary Leverage Ratio

The U.S. banking agencies historically have required banks to meet a minimum Tier 1 leverage ratio. The Final Capital Rules retain this Tier 1 leverage ratio but now require a minimum 4% ratio for all banking organizations (eliminating the existing exception for certain banking organization to maintain only a 3% minimum). At June 30, 2014, the Tier 1 leverage ratio for The Bank of New York Mellon Corporation was 5.9%.

Among other new requirements, the Basel III Final Capital Rules introduced a 3% SLR for all Advanced Approaches banking organizations. The SLR becomes effective as a binding ratio on Jan. 1, 2018, although commencing in January 2015 each Advanced Approaches banking organization is required to calculate and report its SLR. Unlike the Tier 1 leverage ratio that has long applied to U.S. banking organizations, the SLR includes certain off-balance sheet exposures in the denominator, including the potential future exposure ("PFE") of derivative contracts and notional amount of commitments.

In April 2014, the U.S. federal banking agencies adopted an "enhanced" increased SLR for banking organizations with total consolidated assets of more than $700 billion or assets under custody of more than $10 trillion, as well as their depository institution subsidiaries. Under these applicability criteria, the eight U.S. banking organizations that have been identified as G-SIBs by the Financial Stability Board as global systemically important banks ("G-SIBs") (including BNY Mellon) and their insured depository institution subsidiaries would be subject to the enhanced SLR. The enhanced SLR requires BNY Mellon and the other U.S. G-SIB bank holding companies to maintain a 2% buffer over the minimum 3% SLR for a total 5% SLR in order to avoid certain restrictions on capital distributions and discretionary bonus payments. In addition, the eight G-SIBs' insured depository institution subsidiaries, regardless of the amount of their consolidated assets or assets under custody, must maintain a 6% SLR to be deemed "well-capitalized" under the "prompt corrective action" framework. The final enhanced SLR rule for G-SIBs, like the SLR more generally applicable to all Advanced Approaches banking organizations, will become effective on Jan. 1, 2018.

The Basel Committee finalized changes to the denominator of the Basel III leverage ratio in January 2014. These modifications would change the exposure measurement methodology for the on-balance sheet assets and off-balance sheet activities of banking organizations subject to the SLR. Among other changes, the final Basel III denominator allows daily averaging for leverage ratio calculations and adopts more favorable "credit conversion factors" ("CCF") for commitments. In April 2014, the U.S. federal banking agencies issued a notice of proposed rulemaking ("NPR") to modify the SLR denominator in the U.S. to align with the final Basel III changes to the leverage ratio denominator. The proposed changes would apply to all Advanced Approaches banking organizations subject to the SLR and all the G-SIBs and their insured depository institution subsidiaries subject to the enhanced SLR. The rules proposed in the NPR have not been finalized.

Prompt Corrective Action

The Federal Deposit Institution Act ("FDI Act"), as amended by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), requires the federal banking agencies to take "prompt corrective action" in respect of depository institutions that do not meet specified capital requirements. The

FDI Act establishes five capital categories for FDIC-insured banks: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." The FDI Act imposes progressively more restrictive constraints on operations, management and capital distributions the less capital the institution holds.

A depository institution is deemed to be "well capitalized" if the depository institution has a total risk-based capital ratio of at least 10.0%; Tier 1 risk-based capital ratio of at least 6.0%; and Tier 1 leverage ratio of at least 5.0%. FDICIA's prompt corrective action provisions only apply to depository institutions and not to BHCs. The Federal Reserve's regulations applicable to BHCs do include a concept of a "well capitalized" BHC, defined as one maintaining a total risk-based capital ratio of at least 10.0% and a Tier 1 risk-based capital ratio of at least 6.0% (but not a leverage measure). A BHC that is not well capitalized under that definition (or whose bank subsidiaries are not well capitalized and well managed under applicable prompt corrective action standards) may not become a financial holding company and, if it is a financial holding company but then falls out of well capitalized status, may be restricted in certain of its activities and ultimately may lose financial holding company status.

The Final Capital Rules establish revised "well capitalized" thresholds for insured depository institutions under the federal banking agencies' prompt corrective action framework. Under the Final Capital Rules, effective January 1, 2015, an insured depository institution is deemed to be "well capitalized" if it has:

- a CET1 ratio of at least 6.5%;
- a Tier 1 capital ratio of at least 8%;
- a Total capital ratio of at least 10%; and
- a Tier 1 leverage ratio of at least 5%.

Effective January 2018, the Final Capital Rules also require an Advanced Approaches banking organization to maintain a SLR of at least 3% to qualify for the "adequately capitalized" status but does not have a minimum SLR requirement to meet "well capitalized" status. However, as noted above, the U.S. banking agencies revised the SLR to establish a "well capitalized" threshold of 6% for covered insured depository institutions, including The Bank of New York Mellon, and an effective level of 5% for covered holding companies, including BNY Mellon.

At June 30, 2014, BNY Mellon and all of its bank subsidiaries were "well capitalized" based on the ratios and rules applicable to them noted above. A bank's capital category, however, is determined solely for the purpose of applying the prompt corrective action rules and may not be an accurate representation of the bank's overall financial condition or prospects.

Pillar 3 Disclosure Report

The Final Capital Rules are designed to establish a more risk sensitive approach to capital management. The U.S. Regulators have included within the Final Capital Rules public disclosure requirements, with an expressed objective of improving market discipline and encouraging sound risk-management practices. The Basel Committee introduced public disclosure requirements under Pillar 3 of Basel II, which were designed to complement the minimum capital requirements and the supervisory review process by encouraging market discipline through enhanced and meaningful public disclosure. The Basel Committee introduced additional disclosure requirements in Basel III, which, under the Final Capital Rule, apply to BNY Mellon. The Final Capital Rule includes specific qualitative and quantitative disclosure requirements concerning certain material risks.

The U.S. banking agencies require Pillar 3 disclosures at the holding company level for each calendar quarter. Under the Final Capital Rules, separate Pillar 3 disclosures are not required for consolidated subsidiaries of Advanced Approaches banking organizations, even if those subsidiaries themselves are Advanced Approaches banking organizations. A separate Pillar 3 disclosure report therefore has not been prepared for any of our consolidated subsidiaries. Nevertheless, this Report describes risk management policies and procedures, risk weighting methodologies, accounting policies and financial results, among other items, that apply to or encompass our consolidated subsidiaries. In addition, U.S. Regulators permit certain Pillar 3 requirements to be satisfied by inclusion within the Annual Report on Form 10-K and Quarterly Report on Form 10-Q ("SEC Reports"). In certain cases, BNY Mellon makes reference to its other public disclosures in this Report.

Policy and Approach - Comparison with Annual and Quarterly Reports, verification and sign off

This Report discloses BNY Mellon's assets both in terms of credit exposure and RWAs. For the purposes of this Report, credit exposure is defined as the estimate of the amount at risk in the event of a default (before any recoveries). This estimate takes into account certain contractual commitments related to undrawn lines of credit, and is referred to as Exposure at Default ("EAD"). In contrast, the assets on BNY Mellon's balance sheet, as published in our SEC Reports, are reported as the outstanding balance only. Therefore, exposure values in this Report can differ from asset values as reported in our other published SEC Reports.

BNY Mellon has followed the methods and scope of the Final Capital Rules capital adequacy calculations when disclosing credit exposures and RWAs. Throughout this Report, tables show credit exposures or RWAs split into various exposure classes (counterparties). Some of these classes are specified in the Final Capital Rules. When the regulations are not explicit, such as in geographic analyses, we allocate the exposure class on the same basis as our Annual Report or as noted in the specific table.

BNY Mellon internally verifies and approves this Report according to the requirements of a dedicated disclosure policy approved by our Board of Directors. This includes a review by our Disclosure Committee to ensure that external disclosures (including this Report) present the Company's risk profile comprehensively, subject to information being material and not proprietary or confidential. The disclosure policy addresses internal controls and disclosure controls and procedures associated with the preparation of this Report. One or more senior officers of BNY Mellon must attest that the contents of this Report satisfy the requirements of the Final Capital Rule. In preparing this Report, BNY Mellon may employ concepts of materiality. Information may be regarded as material for purposes of this Report based on standards similar to those used when making materiality determinations for filing SEC Reports. There are no requirements for external auditing of this Report; however CET1, Tier 1, and Total capital ratios will be tested by external auditors as part of the annual financial statement audit.

Scope of Application

The Bank of New York Mellon Corporation is the ultimate parent company to all members of its consolidated group and is subject to consolidated supervision by the Federal Reserve. The information in this Report is presented on a consolidated basis that includes BNY Mellon and its subsidiaries. A list of our primary subsidiaries can be found on Exhibit 21.1 of our 2013 Form 10-K.

Variable Interest Entities

Accounting guidance on the consolidation of variable interest entities ("VIEs") is included in Accounting Standards Codification ("ASC") 810 *Consolidation*, ASU 2009-17 "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities", and ASU 2010-10 "Amendments for Certain Investment Funds," which defers ASU 2009-17 for certain asset managers' interests in entities that apply the specialized accounting guidance for investment companies or that have the attributes of investment companies and for interests in money market funds.

VIEs are defined as certain entities in which the equity investors:

- do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support; or
- lack one or more of the following characteristics of a controlling financial interest:
  - The power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity's economic performance (ASU 2009-17 model).
  - The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights (ASC 810 model).
  - The obligation to absorb the expected losses ("EL") of the entity.
  - The right to receive the expected residual returns of the entity.

We consider the underlying facts and circumstances of individual transactions when assessing whether or not an entity is a potential VIE. BNY Mellon is required to consolidate a VIE if BNY Mellon is determined to be the primary beneficiary.

As a result of ASU 2010-10, BNY Mellon continues to apply ASC 810 to its mutual funds, hedge funds, private equity funds, collective investment funds and real estate investment trusts. If these entities are determined to be VIEs, primary beneficiary calculations are prepared in accordance with ASC 810 to determine whether or not BNY Mellon is the primary beneficiary and required to consolidate the VIE. The primary beneficiary of a VIE is the party that absorbs a majority of the VIE's EL, receives a majority of its expected residual returns or both.

BNY Mellon has two securitizations and several collateralized loan obligations ("CLOs"), which are assessed for consolidation in accordance with ASU 2009-17. The primary beneficiary of these VIE's is the party that has both: (1) the power to direct the activities of the VIE that most significantly impact that entity's economic performance, and (2) the obligation to absorb losses, or the right to receive benefits, from the VIE that could potentially be significant to the VIE.

If BNY Mellon can exert control over the financial and operating policies of an investee, which generally can occur if there is a 50% or more voting interest or if partners or members of an investee do not have certain substantive rights, BNY Mellon consolidates the investee.

Investees structured as limited partnerships or limited liability companies for which BNY Mellon is either the general partner or managing member are presumed to be controlled by BNY Mellon. In accordance with ASC 810-20 *Control of Partnerships and Similar Entities*, we review the rights of the limited partners and members to determine whether that presumption can be overcome. The presumption of control is overcome when the limited partners or managing members have the ability to dissolve the entity, can remove BNY Mellon, as the general partner or managing member without cause based on a simple majority vote of unaffiliated limited partners or members or have other substantive participating rights. If the presumption of control is not overcome, the entity is consolidated.

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

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

As of June 30, 2014, we had $10.8 billion in VIE assets included in our consolidated financial statements. Approximately $9.4 billion of these assets were classified as trading assets while the remainder is classified as available for sale securities or other assets. These consolidated investment management funds are risk weighted in accordance with the Final Capital Rules' requirements. The net assets of any consolidated VIE are solely available to settle the liabilities of the VIE and to settle any investors' ownership liquidation requests, including any seed capital invested in the VIE by BNY Mellon.

Additionally, BNY Mellon had $138 million included in its consolidated financial statements for non-consolidated VIE assets as of June 30, 2014 where we are not the primary beneficiary. These assets primarily represent seed capital, collateralized debt, mortgage, and loan obligations, mutual funds, and hedge funds. These assets are risk weighted in accordance with the Final Capital Rules' requirements.

BNY Mellon has non-controlling equity interests in various venture capital investments, strategic joint ventures and trade or clearing associations which are risk weighted according to the Final Capital Rules' requirements. Investments where our percentage of voting stock or equity ownership ranges between 20% to 50% are accounted for under the equity method of accounting. See page 141 of BNY Mellon's 2013 Annual Report for a listing of our most significant equity method investments as of Dec. 31, 2013. Those equities where our share in the voting stock or equity of the investee is less than 20% are accounted for under the cost method of accounting. See the "Equities Not Subject to Market Risk" section

of this Report for a further discussion of these accounting treatments.

BNY Mellon does not have any entities that are deducted for regulatory capital requirements.

Restrictions on Transfer of Capital

The Parent is a legal entity separate and distinct from its bank subsidiaries and other subsidiaries. Dividends and interest from its subsidiaries are the Parent's principal sources of funds to make capital contributions or loans to its subsidiaries, to service its own debt, to honor its guarantees of debt issued by its subsidiaries or of trust preferred securities issued by a trust or to make its own capital distributions. Various federal and state statutes and regulations limit the amount of dividends that may be paid to the Parent by our bank subsidiaries without regulatory consent. If, in the opinion of the applicable federal regulatory agency, a depository institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), the regulator may require, after notice and hearing, that the bank cease and desist from such practice. The OCC, the Federal Reserve and the Federal Deposit Insurance Corporation ("FDIC") have indicated that the payment of dividends would constitute an unsafe and unsound practice if the payment would reduce a depository institution's capital to an inadequate level. Moreover, under the FDI Act, an insured depository institution may not pay any dividends if the institution is undercapitalized or if the payment of the dividend would cause the institution to become undercapitalized. In addition, the federal bank regulatory agencies have issued policy statements which provide that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings.

In general, the amount of dividends that may be paid by The Bank of New York Mellon, BNY Mellon, N.A., The Bank of New York Mellon Trust Company, National Association and BNY Mellon Trust Company of Delaware is limited to the lesser of the amounts calculated under a "recent earnings" test and an "undivided profits" test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared and paid by the entity in any calendar year exceeds the current year's net income combined with the retained net income of the two preceding years, unless the entity obtains prior regulatory approval. Under the undivided profits test, a dividend may not be paid in excess of the entity's "undivided profits" (generally, accumulated net profits that have not been paid out as dividends or transferred to surplus).

The payment of dividends also is limited by minimum capital requirements imposed on banks. As of June 30, 2014, BNY Mellon's bank subsidiaries exceeded these minimum requirements.

Subsequent to June 30, 2014, our bank subsidiaries could declare dividends to the Parent of approximately $1.6 billion, without the need for a regulatory waiver. In addition, at June 30, 2014, non-bank subsidiaries of the Parent had liquid assets of approximately $1.5 billion.

The Federal Reserve and the OCC have issued additional guidelines that require BHCs and national banks to continually evaluate the level of cash dividends in relation to their respective operating income, capital needs, asset quality and overall financial condition.

The Federal Reserve Act limits and requires collateral for extensions of credit by our insured subsidiary banks to BNY Mellon and certain of its non-bank affiliates. Also, there are restrictions on the amounts of investments by such banks in stock and other securities of BNY Mellon and such affiliates, and restrictions on the acceptance of their securities as collateral for loans by such banks. Extensions of credit by the banks to each of our affiliates are limited to 10% of such bank's regulatory capital, and in the aggregate for BNY Mellon and all such affiliates to 20%, and collateral must be between 100% and 130% of the amount of the credit, depending on the type of collateral.

In the event of impairment of the capital stock of one of the Parent's national banks or The Bank of New York Mellon, the Parent, as the banks' stockholder, could be required to pay the deficiency.

Surplus of Insurance Subsidiaries and Subsidiary Regulatory Capital

BNY Mellon and each of its subsidiary banks are subject to capital adequacy requirements promulgated by federal regulatory agencies. The

Federal Reserve establishes capital requirements, including well capitalized standards for The Bank of New York Mellon Corporation, the consolidated holding company. The Bank of New York Mellon, our largest bank subsidiary, is a New York state member regulated bank. The OCC has similar requirements for BNY Mellon, N.A., the Company's national bank. Certain non-bank subsidiaries of the Company are required to maintain minimum levels of shareholders' equity as specified by various U.S. and foreign regulatory agencies, including the SEC, the Financial Conduct Authority, the Prudential Regulation Authority and other foreign regulators.

BNY Mellon also has insurance subsidiaries which are regulated by various national and state regulatory agencies. Most of these insurance subsidiaries are required to meet minimum capital levels. We have insurance subsidiaries that offer life, accident, health and annuity products. Additionally, we have captive insurance subsidiaries that provide property and casualty insurance coverage for the primary benefit of BNY Mellon and its subsidiaries. As captive insurance subsidiaries, they primarily insure the risks of those BNY Mellon entities related to it through common ownership. The insured businesses pay premiums to the captive insurance subsidiaries in exchange for insurance. Two of our five insurance subsidiaries are underwriters in some capacity and currently only underwrite the risks associated with BNY Mellon and its subsidiaries. As of June 30, 2014, these insurance subsidiaries had $1.3 billion of aggregate capital surplus in excess of their statutory minimum requirements which is included in the total capital of BNY Mellon.

All of BNY Mellon's subsidiaries with regulatory capital requirements are operating above regulatory minimums.

Capital Structure

The following table presents BNY Mellon's capital components under the Final Capital Rules as phased in to date (which are set forth in the column titled, "Transitional Approach"), at June 30, 2014.

Basel III capital components at June 30, 2014 *(dollars in millions)*		**Transitional Approach**
CET1:		
Common stock (par value)	$	13
Additional paid-in capital		24,303
Retained earnings		16,796
Accumulated other comprehensive loss, net of tax		(297)
Less: Treasury stock		(3,946)
Common equity		36,869
Goodwill and intangible assets		(17,801)
Net pension fund assets		(21)
Deferred tax assets		(3)
Accumulated Other Comprehensive Income ("AOCI")- cash flow hedge not held at fair value		(8)
Total CET1		19,036
Other Tier 1 capital:		
Preferred stock		1,562
Trust-preferred securities		171
Disallowed deferred tax assets		(14)
Net pension fund assets		(85)
Total Tier 1 capital		20,670
Tier 2 capital:		
Trust-preferred securities		171
Subordinated debt		398
Excess of eligible credit reserve over total expected credit losses (up to 0.60% of credit RWAs)		44
Total Tier 2 capital		613
Total capital - Advanced Approach	$	21,283

CET1 on a transitional basis was approximately $19.0 billion at June 30, 2014.

Preferred stock

BNY Mellon has 100 million authorized shares of preferred stock with a par value of $0.01. The table below presents a summary of BNY Mellon's preferred stock issued and outstanding at June 30, 2014.

Preferred stock summary

(dollars in millions, unless otherwise noted)

Series	Description	Liquidation preference per share (in dollars)	Total shares issued and outstanding	Carrying value at June 30, 2014	*(a)*	Per annum dividend rate
Series A	Noncumulative Perpetual Preferred Stock	$ 100,000	5,001	$ 500		Greater of (i) three- month LIBOR plus 0.565% for the related distribution period; or (ii) 4.000%
Series C	Noncumulative Perpetual Preferred Stock	$ 100,000	5,825	$ 568		5.2%
Series D	Noncumulative Perpetual Preferred Stock	$ 100,000	5,000	$ 494		4.50% commencing Dec. 20, 2013 to but excluding June 20, 2023, then a floating rate equal to the three-month LIBOR plus 2.46%
Total			**15,826**	**$ 1,562**		

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

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

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

The preferred stock is not subject to the operation of a sinking fund and is not convertible into, or exchangeable for, shares of our common stock or any other class or series of our other securities. Subject to the restrictions in BNY Mellon's 2007 replacement capital covenant, subsequently amended on May 8 and Sept. 11, 2012, we may redeem the Series A preferred stock, in whole or in part, at our option. We may also, at our option, redeem the shares of the Series C preferred stock in whole or in part, on or after the dividend payment date in September 2017 and the Series D preferred stock in whole or in part, on or after the dividend payment date in June 2023. Both the Series C or Series D preferred stock can be redeemed in whole but not in part at any time within 90 days following a regulatory capital treatment event (as defined in the Certificate of Designations of the Series C preferred stock and the Certificate of Designations of the Series D preferred stock).

Terms of the Series A preferred stock, Series C preferred stock, and Series D preferred stock are more fully described in each of their Certificate of Designations, each of which is filed as an Exhibit to BNY Mellon's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.

Trust-preferred securities

In accordance with the Final Capital Rules, half of the amount of the following trust preferred securities are included in our transitional Tier I capital and the other half is included in Tier 2 Capital at June 30, 2014.

Trust preferred securities at June 30, 2014 (dollar amounts in millions)	Amount of junior subordinated debentures	Interest rate	Assets of trust	Due date	Call date	Call price
MEL Capital III *(a)*	$ 342	6.37%	$ 338	2036	2016	Par

(a) Amount was translated from Sterling into U.S. dollars on a basis of U.S. $1.71 to £1, the rate of exchange on June 30, 2014.

At June 30, 2014, a wholly owned subsidiary of BNY Mellon (the "Trust") has issued cumulative Company-Obligated Mandatory Redeemable Trust Preferred Securities of Subsidiary Trust Holding Solely Junior Subordinated Debentures ("trust preferred securities"). The sole asset of this trust is junior subordinated deferrable interest debentures of BNY Mellon with maturities and interest rates that match the trust preferred securities. Our obligation under the agreement that relate to the trust preferred securities, the Trust and the debentures constitutes a full and unconditional guarantee by the Holding Company of the Trust's obligation under the trust preferred securities.

At June 30, 2014, we had $342 million of trust preferred securities outstanding. Under the Final Capital Rules, these trust preferred securities may continue to be included in Tier 1 or Tier 2 capital up to the following percentages: calendar year 2014 - 50%; calendar year 2015 - 25%; and calendar year 2016 and beyond - 0%. Certain amounts of trust preferred securities that are excluded from additional Tier 1 capital due to this phase-in schedule may be eligible for inclusion in Tier 2 capital, pursuant to the standards established in the Final Capital Rules.

Any decision to take action with respect to these trust preferred securities will be based on several considerations including interest rates, the availability of cash and capital, as well as the implementation of the Final Capital Rules.

Qualifying subordinated debt

As of June 30, 2014, $398 million of subordinated debt qualified as Tier 2 regulatory capital. Regulatory capital treatment requires capital to be discounted on a straight-line basis over the final five years of maturity. For accounting purposes, the capital instruments below are included in long-term debt and summarized as subordinated debt.

The following table details the primary terms and conditions of the qualifying subordinated debt included in Tier 2 regulatory capital. The balances disclosed are determined in accordance with GAAP balance sheet carrying amounts and regulatory capital.

Terms and Conditions of Qualifying Subordinated Debt – June 30, 2014 *(dollars in millions)*	**Tier 2 Regulatory Capital**	**Par Value**	**Rate**	**Issue**	**Maturity**	**Callable**
BNY Mellon Corporation	$ 150	$ 250	5.50%	SD	Dec-2017	No
BNY Mellon Corporation	—	500	4.95	SMTN	Mar-2015	No
The Bank of New York Mellon	—	300	4.75	SD	Dec-2014	No
The Bank of New York Mellon	50	250	5.45	SD	Apr-2016	No
Mellon Funding Corporation	—	400	5.00	SD	Dec-2014	No
Mellon Funding Corporation	200	250	5.50	SD	Nov-2018	No
Unearned Discount/Deferred Costs	(2)	(3)				
Total Qualifying Subordinated Debt	**$ 398**	**$ 1,947**				

SD – Subordinated debt.
SMTN – Subordinated medium term notes.

Capital Adequacy

Capital Management

The Bank of New York Mellon Corporation is committed to maintaining a well- capitalized position. Our Corporate Finance Group, which is part of the Corporate Treasury division, has joint responsibility with our Basel and Capital Adequacy ("B&CA") Group within Risk Management and Compliance for the development of the annual capital plan. It is the Company's policy to maintain strong capital levels and establish sufficient capital while considering asset size, quality and duration, off-balance sheet commitments, risk characteristics, growth and economic conditions. Capital management is one of senior management's most important ongoing responsibilities. The Chairman and the Chief Financial Officer ("CFO") determine the appropriate level of capital in an assessment that considers our internal economic capital usage, regulatory guidelines, rating agency policies, and expectations of the marketplace.

Our Capital Management Policy sets forth our capital management principles with respect to capital planning, capital usage and capital actions based on a continual assessment of risk and business factors. It also sets forth the governance process used to make such decisions and the factors that we consider when developing our capital plan and determining when capital actions are appropriate. Any updates to this policy must be approved by both our Asset and Liability Management Committee ("ALCO") and the Board of Directors or a designated committee of the Board.

In the fourth quarter of each calendar year, Corporate Treasury coordinates with our B&CA, Management Reporting, and Regulatory Reporting groups to project capital levels and ratios and develop a base capital plan for the prescribed planning period. The capital plan is reviewed and approved by the CFO and Chief Risk Officer ("CRO"), ALCO, and then the Board of Directors. We then submit the plan to the Federal Reserve as part of the Comprehensive Capital Analysis and Review ("CCAR") process.

When developing the capital plan, BNY Mellon considers the requirements under each of the banking supervision accords set forth by the Basel Committee (Basel I and Basel III.) BNY Mellon continually monitors our capital position and ensures that any contemplated capital actions would not limit our

ability to meet the capital requirements under both capital regimes. Management monitors progress under the capital plan on a monthly basis. Updates to the projections of capital levels and ratios are presented to senior management at least once a month at the meetings of ALCO.

Economic capital

BNY Mellon has implemented a methodology to quantify economic capital. We define economic capital as the capital required to protect against unexpected economic losses over a one-year period at a level consistent with the solvency of a target debt rating. We quantify economic capital requirements for the risks inherent in our business activities using statistical modeling techniques and then aggregate them at the consolidated level. A capital reduction, or diversification benefit, is applied to reflect the unlikely event of experiencing an extremely large loss in each type of risk at the same time. Economic capital requirements are directly related to our risk profile. Accordingly these requirements have become a part of our internal capital adequacy assessment process ("ICAAP") and, along with regulatory capital, are a key component to ensuring that the actual level of capital is commensurate with our risk profile and sufficient to provide the financial flexibility to undertake future strategic business initiatives.

The framework and methodologies used to quantify each of our risk types are designed to be consistent with our risk management principles. The framework has been approved by senior management and has been reviewed by the Risk Committee of the Board of Directors. In view of the evolving nature of quantification techniques, we expect to continue to refine the methodologies used to estimate our economic capital requirements.

Capital Planning and Stress Testing

BNY Mellon's capital distributions are subject to supervision and regulation by the Federal Reserve. CCAR and the Dodd-Frank Act Stress Test ("DFAST") are a major component of the Federal Reserve's oversight.

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

In June 2014, the U.S. federal banking agencies proposed to revise aspects of their rules pertaining to CCAR and DFAST (the "Proposed Rules"). These revisions include, among other changes, proposals to limit the ability of a BHC subject to CCAR to make capital distributions in a given quarter if its actual capital issuances in that quarter are less than the amount indicated in its capital plan and to eliminate the need to obtain prior approval for "accretive" issuances of capital instruments that would qualify for inclusion in the numerator of regulatory capital ratios. Comments were due to the U.S. federal banking agencies concerning the Proposed Rules by August 11, 2014.

We also perform enterprise-wide stress testing analysis across our lines of business, products, geographic areas, and risk types incorporating the results from the different underlying models and projections given a certain stress-test scenario. It is an important component of assessing the adequacy of capital (as in the ICAAP) as well as identifying any high risk touch points in business activities. Furthermore, by integrating enterprise-wide stress testing into the Company's capital planning process, the results provide a forward-looking evaluation of the ability to complete planned capital actions in a more-adverse-than-anticipated economic environment.

The following table presents our RWAs by exposure type calculated using the Final Capital Rules' risk-weightings under the Transitional Approach:

		Advanced Approaches
Basel III Risk-weighted assets *(in millions)*		**June 30, 2014**
Wholesale exposures	**$**	**76,549**
Retail exposures:		
Residential mortgage		**1,325**
Other retail		**248**
Securitization exposures		**12,250**
Cleared transactions		**448**
Equity exposures *(a)*		**5,417**
Other assets		**12,945**
Total credit RWAs		**109,182**
Total credit RWAs x 1.06 *(b)*		**115,733**
Credit valuation adjustment ("CVA")		**5,111**
Market risk:		
Non specific		**2,603**
Standardized approach for specific risk		**2,834**
Total market risk		**5,437**
Operational risk		**40,200**
Total RWAs	**$**	**166,481**

(a) All direct equity exposures for BNY Mellon are subject to the simple risk weight approach; equity exposures to investment funds are currently weighted using various look-through approaches as appropriate.

(b) Gross-up of 6% as defined per the regulations applies to the Advanced Approach.

Our RWAs calculated under the Final Capital Rules Advanced Approaches for determining RWAs ("Advanced Basel III RWAs") totaled $166.5 billion at June 30, 2014. Credit risk-weighted assets totaled $109.2 billion and included wholesale exposures of $76.5 billion. Wholesale exposures include corporate, bank, sovereign and commercial real-estate secured loans and represents 70% of our total credit risk-weighted assets at June 30, 2014. The remaining credit related risk exposures included securitizations of $12.3 billion, cleared transactions of $0.4 billion, equities of $5.4 billion, retail of $1.6 billion, and other assets not included in a defined exposure category of $12.9 billion.

The remaining non-credit related Advanced Basel III RWAs at June 30, 2014 included operational risk of $40.2 billion, market risk of $5.4 billion, and a CVA for derivative exposures intended to capture changes in credit spreads applicable to BNY Mellon's counterparties short of an actual default of $5.1 billion.

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

As of June 30, 2014, BNY Mellon and our bank subsidiaries were considered "well capitalized" on the basis of the Total and Tier 1 capital to RWAs ratios and the leverage capital ratio.

The following tables provide RWA and risk-based capital ratios for our holding company and for our two largest depository institution subsidiaries.

At June 30, 2014 our CET1 ratio calculated under the Final Capital Rules' Advanced Approaches was 11.4%, on a transitional basis.

Basel III risk-based capital ratios- (Advanced Approach)	June 30, 2014			
(dollar amounts in millions)	**RWA**	**CET1**	**Tier 1**	**Total**
BHC:				
The Bank of New York Mellon Corporation	**$ 166,481**	**11.4%**	**12.4%**	**12.8%**
Depository Institution Subsidiaries:				
The Bank of New York Mellon	117,588	12.4	12.9	13.2
BNY Mellon, N.A.	7,287	16.7	16.7	17.0

Credit Risk: General Disclosures

General risk management - Governance

Risk management and oversight begins with the Board of Directors and two key Board committees: the Risk Committee and the Audit Committee. The Risk Committee is composed entirely of independent directors and meets on a regular basis to review and assess the control processes with respect to the Company's inherent risks. It also reviews and assesses the risk management activities of the Company and the Company's fiduciary risk policies and activities. Policy formulation and day-to-day oversight of the risk management framework is delegated to the CRO, who, together with the Chief Auditor and Chief Credit Officer ("CCO"), helps ensure an effective risk management governance structure. The roles and responsibilities of the Risk Committee are described in more detail in its charter, a copy of which is available on our website www.bnymellon.com.

The Audit Committee is also composed entirely of independent directors, all of whom are financially literate within the meaning of the New York Stock Exchange ("NYSE") listing standards, and one of whom has been determined to be an audit committee financial expert as set out in the rules and regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with accounting or related financial management expertise within the meaning of the NYSE listing standards. All members of the Audit Committee have been determined to have banking and financial management expertise within the meaning of the FDIC rules. The Audit Committee meets on a regular basis to perform an oversight review of the integrity of the financial statements and financial reporting process, compliance with legal and regulatory requirements, our independent registered public accountant's qualifications and independence, and the performance of our registered public accountant and internal audit function. The Audit Committee also reviews management's assessment of the adequacy of internal controls. The functions of the Audit Committee are described in more detail in its charter, a copy of which is available on our website www.bnymellon.com.

Risk management - Structure

The Senior Risk Management Committee ("SRMC") is the most senior management body responsible for ensuring that emerging risks are weighed against the corporate risk appetite and that any material amendments to the risk appetite statement are properly vetted and recommended to the Executive Committee, which is composed of senior executives of our company responsible for major business and shared services areas, and the Board for approval. The SRMC also reviews any material breaches to our risk appetite and approves action plans required to remediate the issue. SRMC provides oversight for the risk management, compliance and ethics framework. The Chief Executive Officer, CRO and CFO are among SRMC's members.

Risk appetite statement

BNY Mellon defines risk appetite as the level of risk it is normally willing to accept while pursuing the interests of our major stakeholders, including our clients, shareholders, employees and regulators. Our risk appetite statement provides that: Risk-taking is a fundamental characteristic of providing financial services and arises in every transaction we undertake. Our risk appetite is driven by the fact that our Company is the global leader in providing services that enable the management and servicing of financial assets in more than 100 markets worldwide and has been designated by international regulators as one of the 29 Global Systemically Important Financial Institutions ("G-SIFIs"). This designation recognizes our fundamental importance to the health and

operation of the global capital markets and carries with it a responsibility to maintain the highest standards of excellence. As a result, we are committed to maintaining a strong balance sheet throughout market cycles and to delivering operational excellence to meet the expectations of our major stakeholders, including our clients, shareholders, employees and regulators. The balance sheet will be characterized as liquid, with strong 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. These characteristics support our goal of having debt ratings among the best within our peer group, which comprises other trust and investment firms. To that end, the Company's Risk Management Framework has been designed to:

- ensure that appropriate risk tolerances ("limits") are in place to govern our risk-taking activities across all businesses and risk types;
- ensure that our risk appetite principles permeate the Company's culture and are incorporated into our strategic decision-making processes;
- ensure rigorous monitoring and reporting of key risk metrics to senior management and the Board of Directors; and
- ensure that there is an on-going, and forward-looking, capital planning process to support our risk-taking activities."

Primary Types of Risk

The understanding, identification and management of risk are essential elements for the successful management of BNY Mellon. Our primary risk categories are:

Credit: The possible loss we would suffer if any of our borrowers or other counterparties were to default on their obligations to us. Credit risk is resident in the majority of our assets, but primarily concentrated in the loan and securities books, as well as off-balance-sheet exposures such as lending commitments, letters of credit, and securities lending indemnifications.

Operational/business: The risk of loss resulting from inadequate or failed internal processes, human factors and systems, breaches of technology and information systems, or from external events. Also includes fiduciary risk, reputational risk, and litigation risk.

Market: The risk of loss due to adverse changes in the financial markets. Our market risks are primarily interest rate, foreign exchange, and equity risk. Market risk particularly impacts our exposures that are marked-to-market such as the securities portfolio, trading book, and equity investments.

Liquidity: The risk that BNY Mellon cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flows, without adversely affecting daily operations or financial conditions. Liquidity risk can arise from cash flow mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events. Thus, liquidity risk can be inherent in the majority of our balance sheet exposures.

Credit Risk Management

To balance the value of our activities with the credit risk incurred in pursuing them, we set and monitor internal credit limits for activities that entail credit risk, most often on the size of the exposure and the maximum maturity of credit extended. For credit exposures driven by changing market rates and prices, exposure measures include an add-on for such potential changes.

We manage credit risk at both the individual exposure level as well as the portfolio level. Credit risk at the individual exposure level is managed through our credit approval system and involves four approval levels up to and including the CRO of the Company. The requisite approvals are based upon the size and relative risk of the aggregate exposure under consideration. Our Credit Risk Group is responsible for approving the size, terms and maturity of all credit exposures as well as the ongoing monitoring of the creditworthiness of the counterparty. In addition, it is responsible for assigning and maintaining the risk ratings on each exposure. Credit risk management at the portfolio level is supported by the B&CA Group, within Risk Management and Compliance. The B&CA Group is responsible for calculating two fundamental credit measures. First, this group projects a statistically probable credit loss, used to help determine the appropriate loan loss reserve and to measure customer profitability. Credit loss considers three basic components: the estimated size of the exposure whenever default might occur, the probability of default ("PD") before maturity and the severity of the loss we would incur, commonly called

"loss given default" ("LGD"). For institutional lending, where most of our credit risk is created, unfunded commitments are assigned a usage given default ("UGD") percentage. Borrowers/ Counterparties are assigned ratings by Credit Portfolio Managers ("CPMs") and the CCO on an 18-grade scale, which translate to a scaled PD. Additionally, transactions are assigned LGD ratings (on a 7-grade scale) that reflect the transactions' structures including the effects of guarantees, collateral, and relative seniority of position.

The second fundamental measurement of credit risk calculated by the B&CA Group is called economic capital. Our economic capital model estimates the capital required to support the overall credit risk portfolio. Using a Monte Carlo simulation engine and measures of correlation among borrower defaults, the economic model examines extreme and highly unlikely scenarios of portfolio credit loss in order to estimate credit-related capital, and then allocates that capital to individual borrowers and exposures. The credit related capital calculation supports a second tier of policy standards and limits by serving as an input to both profitability analysis and concentration limits of capital at risk with any one borrower, industry or country.

The B&CA Group is responsible for the calculation methodologies and the estimates of the inputs used in those methodologies for the determination of EL and economic capital. These methodologies and input estimates are regularly evaluated to ensure their appropriateness and accuracy. As new techniques and data become available, the BC&A Group attempts to incorporate, where appropriate, those techniques and data.

Credit risk is intrinsic to much of the banking business. BNY Mellon seeks to limit both on- and off-balance sheet credit risk through prudent underwriting and the use of capital only where risk-adjusted returns warrant. We seek to manage risk and improve our portfolio diversification through syndications, asset sales, credit enhancements, credit derivatives, and active collateralization and netting agreements. In addition, we have a separate Credit Risk Review Group, which is part of Internal Audit, made up of experienced loan review officers who perform timely reviews of the loan files and credit ratings assigned to the loans.

Risk Measurement & Reporting Systems

The purpose of the Company's risk measurement and reporting systems is to ensure that all risks and exposures are comprehensively captured, with all of the attributes necessary to support robust decision making by senior management and risk mitigation within approved risk appetite levels.

The following tables detail total credit exposure before the effect of credit risk mitigation (such as collateral and netting) and distribute the exposure by geographic region, counterparty and remaining contractual maturity. In order to remove the effects of credit risk mitigants, we have grossed up exposures for the following activity types: OTC derivatives, margin loans and repurchase agreements ("repo")/reverse repurchase agreement ("reverse repo") transactions. The cumulative effect of credit risk mitigants was $41.9 billion as of June 30, 2014. Credit exposure is presented using EAD for all tables presented below. In addition, we have off-balance sheet credit risks associated with securities lending indemnification and indemnification for securities for which BNY Mellon acts as an agent on behalf of CIBC Mellon clients, that are excluded from the table below of $296 billion and $63 billion, respectively at June 30, 2014. For more information, see Note 18 in our second quarter 2014 Form10-Q Report.

Credit risk exposure before effect of credit risk mitigation – quarter end and average *(a)*

(in millions)	**June 30, 2014**	**2Q Average** *(b)*
Deposits with banks, securities & loans	**$ 294,100**	**$ 276,090**
Unused commitments *(c)*	**26,234**	**27,975**
OTC derivatives	**29,985**	**29,454**
Repo-style transactions & margin lending	**46,781**	**45,840**
Total credit risk exposure *(d)*	**$ 397,100**	**$ 379,359**

(a) Credit risk exposure represents exposure before the effect of credit risk mitigation such as collateral, guarantees and netting.
(b) Calculated on a simple average of the beginning and ending quarterly balances.
(c) Includes unused commitments, Commercial Letters of Credit ("L/C") and standby L/C's.
(d) Excludes equities and securitizations.

Total EAD was $397.1 billion at June 30, 2014, primarily consisting of:

- Deposits with banks, securities and loans exposure was $294.1 billion consisting primarily of interest bearing deposits, federal reserve bank placements, debt securities, pass through mortgage-backed securities ("MBS"), non-pass through MBS, overdrafts (other loans), overnight placements, loans with financial institutions, CLOs, placements and residential mortgages.

- OTC derivatives exposure was $30.0 billion and consists primarily of interest rate contracts and foreign exchange contracts.

- Repo-style transactions and margin lending exposure was $46.8 billion and primarily consists of margin loans, federal funds purchased and reverse repos and federal funds sold and repos.

The following table distributes credit exposure by geographic region based on the counterparty's country of risk.

Credit risk exposure before effect of credit risk mitigation- by geographic region ***(a)***
at June 30, 2014

(in millions)	**Americas**	**EMEA**	**APAC**	**Total**
Deposits with banks, securities & loans	$ 215,148	$ 50,471	$ 28,481	$ 294,100
Unused commitments *(c)*	23,555	2,101	578	$ 26,234
OTC derivatives	15,985	12,784	1,216	$ 29,985
Repo-style transactions & margin lending	44,133	147	2,501	$ 46,781
Total credit risk exposure *(d)*	**$ 298,821**	**$ 65,503**	**$ 32,776**	**$ 397,100**

Note: Please see the table titled "Credit Risk exposure before effect of credit risk mitigation- quarter end and average" above for footnotes.

At June 30, 2014, exposures were primarily located in the Americas and EMEA regions.

- EAD in the Americas totaled $298.8 billion, primarily consisting of federal reserve bank placements, debt securities, pass through MBS, overdrafts (other loans), federal funds sold and repos, unused loan commitments, non-pass through MBS, interest rate contracts, federal funds purchased and reverse repos, interest bearing deposits and placements, CLOs, indemnifications, and residential mortgages.

- EAD in EMEA totaled $65.5 billion and included exposures of interest bearing deposits and interest rate contracts.

The following table distributes credit exposure by counterparty type.

Credit risk exposure before effect of credit risk mitigation- by counterparty type *(a)*
at June 30, 2014

(in millions)	Corporate	Sovereign	Bank	Real Estate *(e)*	Retail	Total
Deposits with banks, securities & loans	$ 81,483	$ 145,656	$ 57,164	$ 1,540	$ 8,257	$ 294,100
Unused commitments *(c)*	23,952	205	1,643	308	126	26,234
OTC derivatives	11,750	587	17,648	—	—	29,985
Repo-style transactions & margin lending	42,601	—	4,180	—	—	46,781
Total credit risk exposure *(d)*	**$ 159,786**	**$ 146,448**	**$ 80,635**	**$ 1,848**	**$ 8,383**	**$ 397,100**

Note: Please see footnotes (a) through (d) to the table titled "Credit Risk exposure before effect of credit risk mitigation- quarter end and average" above.
(e) Real estate includes High-Volatility Commercial Real Estate ("HVCRE") and Income Producing Real Estate ("IPRE").

At June 30, 2014, exposures by counterparty were primarily in corporate, sovereign and bank counterparties.

- Corporate exposures were $159.8 billion at June 30, 2014. Corporate exposures were comprised of pass through MBS, margin loans, CLOs, non-pass through MBS, other loans and overdrafts, debt securities, federal funds purchased and reverse repos, and federal funds sold and repos.

- Exposures to sovereigns totaled $146.4 billion at June 30, 2014. Sovereign exposures were comprised primarily of federal reserve placements, debt securities, and interest bearing deposits.

- Exposures to banks were $80.6 billion at June 30, 2014. Bank exposures were primarily made up of interest bearing deposits, interest rate contracts and loans with financial institutions.

The following table distributes credit exposure by remaining contractual maturity.

Credit risk exposure before effect of risk mitigation by remaining contractual maturity *(a)*
at June 30, 2014

(in millions)	Within 1 year	Between 1-5 years	After 5 years	Total
Deposits with banks, securities & loans	$ 182,789	$ 44,385	$ 66,926	$ 294,100
Unused commitments *(c)*	8,673	16,685	876	26,234
OTC derivatives	11,334	5,797	12,854	29,985
Repo-style transactions & margin lending	43,758	3,023	—	46,781
Total credit risk exposure *(d)*	**$ 246,554**	**$ 69,890**	**$ 80,656**	**$ 397,100**

Note: Please see the table titled "Credit Risk exposure before effect of credit risk mitigation- quarter end and average" above for footnotes.

The $397.1 billion in total EAD at June 30, 2014 was primarily driven by interest bearing deposits, federal reserve placements, margin lending, over night wholesale placements, federal funds sold and repos, federal funds purchased and reverse repos, loans with financial institutions and overdrafts and other loans, and foreign exchange contracts occurring in the "within 1 year" maturity band.

Past Due/Nonaccrual/Impaired Loans

Commercial loans are placed on nonaccrual status whenever principal or interest is past due for 90 days or more, or when there is reasonable doubt that interest or principal will be collected. Exceptions require approval of the Company's CCO or the CRO.

When a first lien residential mortgage loan reaches 90 days delinquent, it is subject to an impairment test and may be placed on nonaccrual status. At 180 days delinquent, the loan is subject to further impairment testing. The loan will remain on accrual status if the realizable value of the collateral exceeds the unpaid principal balance plus accrued interest. If the loan is impaired, a charge-off is taken and the loan is placed on nonaccrual status. At 270 days delinquent, all first lien mortgages are placed on nonaccrual status. Second lien mortgages are automatically placed on nonaccrual status when they reach 90 days delinquent.

When a loan is placed on nonaccrual status, previously accrued and uncollected interest is reversed against current period interest revenue. When doubt exists as to the collectability of the remaining investment in a nonaccrual asset, any interest payments received must be applied to reduce the recorded investment in the asset to the extent necessary to eliminate such doubt. However, as long as the remaining recorded investment in the asset is deemed fully collectable, some or all of the cash interest received may be treated as interest income. Placement of a loan on "interest-to-principal" basis or recognition of interest on a cash basis requires the approval of the Company's CCO or the CRO.

As a general rule, a nonaccrual asset may be restored to accrual status when none of its principal and interest is due and unpaid, and the Company expects repayment of the remaining contractual principal and interest. These criteria may be met when (1) all principal and interest are reasonably assured of repayment within a reasonable period and (2) after a sustained period of repayment performance (which is generally a minimum of 6 months). However, such assets should continue to be reported as past due until they are brought completely current. A nonaccrual loan secured by residential real estate may be restored to accrual status only when none of its principal and interest is due and unpaid, and the Company expects repayment of the remaining contractual principal and interest.

A loan is considered to be impaired, as defined by ASC 310 *Accounting by Creditors for Impairment of a Loan,* when it is probable that we will be unable to collect all principal and interest amounts due according to the contractual terms of the loan agreement. An impairment allowance on loans $1 million or greater is required to be measured based upon the loan's market price, the present value of expected future cash flows, discounted at the loan's initial effective interest rate, or at fair value of the collateral if the loan is collateral dependent. If the loan valuation is less than the recorded value of the loan, an impairment allowance is established by a provision for credit loss. Impairment allowances are not needed when the recorded investment in an impaired loan is less than the loan valuation. All residential mortgage loans (unpaid principal balance) are subject to impairment testing and resulting charge-off at 180 days delinquency. Any unpaid principal balance in excess of the value of the property, less cost to sell, is classified as loss. Fraudulent loans should be classified as loss and charged off no later than 90 days of discovery or within the time frames specified within this classification policy, whichever is sooner.

The principal of commercial loans is charged off, either in whole or in part, when based on facts and circumstances a serious doubt arises as to the collectability of all or a portion of the principal. A charge-off memo is prepared by the account officer and must be approved by the CCO and the CRO.

Consumer loans that are not secured by residential real estate are charged off when they become 120 days past due. Residential mortgage loans delinquent 180 days or more are charged off to the extent unpaid principal balance plus superior liens (such as taxes and co-op fees) exceed the appraised value less 10%. In addition, charge-offs may be taken at the discretion of management which in some cases may represent the full balance of the loan.

Allowance for loan losses and allowance for lending-related commitments

The allowance for loan losses, shown as a valuation allowance to loans, and the allowance for lending-related commitments recorded in other liabilities are referred to as BNY Mellon's allowance for credit losses. The accounting policy for the determination of the adequacy of the allowances has been identified as a "critical accounting estimate" as it requires us to make numerous complex and subjective estimates and assumptions relating to amounts that are inherently uncertain.

The allowance for loans losses is maintained to absorb losses inherent in the loan portfolio as of the balance sheet date based on our judgment. The allowance determination methodology is designed to provide procedural discipline in assessing the appropriateness of the allowance. Credit losses are charged against the allowance. Recoveries are added to the allowance.

The methodology for determining the allowance for lending-related commitments considers the same factors as the allowance for loan losses, as well as an estimate of the probability of drawdown. We utilize a quantitative methodology and qualitative framework for determining the allowance for loan losses and the allowance for lending-related commitments. Within this qualitative framework, management applies judgment when assessing internal risk factors and environmental factors to compute an additional allowance for each component of the loan portfolio.

The three elements of the allowance for loan losses and the allowance for lending-related commitments include the qualitative allowance framework. The three elements are:

- an allowance for impaired credits of $1 million or greater;
- an allowance for higher risk-rated credits and pass-rated credits; and
- an allowance for residential mortgage loans.

Our lending is primarily to institutional customers. As a result, our loans are generally larger than $1 million. Therefore, the first element, impaired credits, is based on individual analysis of all impaired loans of $1 million or greater. The allowance is measured by the difference between the recorded value of impaired loans and their impaired value. Impaired value is either the present value of the expected future cash flows from the borrower, the market value of the loan, or the fair value of the collateral.

The second element, higher risk-rated credits and pass-rated credits, is based on our probable loss model. All loans over $1 million are individually analyzed before being assigned a credit rating. All borrowers are assigned to pools based on their credit rating. The probable loss inherent in each loan in a pool incorporates the borrower's credit rating, LGD rating and maturity. The LGD incorporates a recovery expectation and an estimate of the use of the facility at default (UGD). The borrower's PD is derived from the associated credit rating. Borrower ratings are reviewed at least annually and are periodically mapped to third-party databases, including rating agency and default and recovery databases, to ensure ongoing consistency and validity. Higher risk-rated credits are reviewed quarterly.

The third element, the allowance for residential mortgage loans, is determined by segregating six mortgage pools into delinquency periods ranging from current through foreclosure. Each of these delinquency periods is assigned a PD. A specific LGD is assigned for each mortgage pool. BNY Mellon also assigns all residential mortgage pools, except home equity lines of credit ("HELOC"), a PD and LGD based on default and loss data derived from our residential mortgage portfolio. For each pool, the inherent loss is calculated using the above factors. The resulting probable loss factor (the PD multiplied by the LGD) is applied against the loan balance to determine the allowance held for each pool. For HELOC, PD and LGD are based on external data from third-party databases due to the small size of the portfolio and insufficient internal data.

The qualitative framework is used to determine an additional allowance for each portfolio based on the factors below:

Internal risk factors:

- Nonperforming loans to total non-margin loans;
- Criticized assets to total loans and lending-related commitments;
- Ratings volatility;
- Borrower concentration; and
- Significant concentration in high risk industries.

External risk factors:
- U.S. non-investment grade default rate;
- Unemployment rate; and
- Change in real GDP (Quarter over quarter).

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

The tables below set forth information about our impaired, past due, and nonaccrual loans.

Impaired, past due and nonaccrual loans at June 30, 2014

(in millions)	Impaired loans with an allowance	Impaired loans without an allowance	Days past due and still accruing				Nonaccrual
			30-59	60-89	>90	Total past due	
Domestic							
Commercial	$ 13	$ —	$ —	$ —	$ —	$ —	$ 13
Commercial real estate	2	1	6	5	—	11	4
Financial institutions	—	—	—	—	312	312	—
Wealth management loans and mortgages	7	2	7	—	1	8	12
Other residential mortgages	—	—	5	26	5	36	105
Total domestic	22	3	18	31	318	367	134
Foreign	5	—	—	—	—	—	4
Total	$ 27	$ 3	$ 18	$ 31	$ 318	$ 367	$ 138

The tables below set forth information on our allowance for credit losses activity.

Allowance for credit losses activity for the quarter ended June 30, 2014

(in millions)	Commercial	Commercial real estate	Financial institutions	Lease financings	Wealth management loans and mortgages	Other residential mortgages	All Other	Foreign	Total
Beginning balance	$ 79	$ 42	$ 48	$ 35	$ 23	$ 50	$ —	$ 49	$ 326
Charge-offs	—	—	—	—	(1)	(1)	—	(2)	(4)
Recoveries	1	—	—	—	—	—	—	—	1
Net (charge-offs) recoveries	1	—	—	—	(1)	(1)	—	(2)	(3)
Provision	(6)	3	(5)	(2)	—	(2)		—	(12)
Ending balance	**$ 74**	**$ 45**	**$ 43**	**$ 33**	**$ 22**	**$ 47**	**$ —**	**$ 47**	**$ 311**
Allowance for:									
Loans losses	$ 17	$ 27	$ 8	$ 33	$ 16	$ 47	$ —	$ 39	$ 187
Lending-related commitments	57	18	35	—	6	—	—	8	124
Individually evaluated for impairment:									
Loan balance	$ 13	$ 3	$ —	$ —	$ 9	$ —	$ —	$ 5	$ 30
Allowance for loan losses	3	1	—	—	2	—	—	1	7
Collectively evaluated for impairment:									
Loan balance	$ 1,531	$ 2,205	$ 5,761	$ 1,321	$ 10,310	$ 1,309	$20,275 *(a)*	$ 16,506	$ 59,218
Allowance for loan losses	14	26	8	33	14	47	—	38	$ 180

(a) Includes $1,748 million of domestic overdrafts, $17,685 million of margin loans and $842 million of other loans at June 30, 2014.

Credit Risk: Disclosures for Portfolios Subject to IRB Risk-based Capital Formulas

Under the Advanced Approaches risk-based capital rules, BNY Mellon uses the IRB advanced approach for quantifying risk in its credit portfolios. The IRB advanced approach is a method of calculating credit risk capital requirements using internal PD, LGD, and EAD models.

Overview of wholesale internal rating system

Our internal rating system includes two types of ratings – a borrower rating and a facility rating. A borrower rating is assigned to each customer; a facility rating is assigned to each exposure.

A borrower rating is intended to reflect the statistical probability that a customer will default on its debt obligations during the next year. The PD associated with each borrower is calculated annually by the B&CA Group. The PDs represent long-run default rates from both internal and external empirical data.

The facility rating reflects the percentage loss we would incur for that facility if the customer were to default on payment of a particular facility. A facility rating is determined by assessing the type of credit exposure, the borrower's corporate and capital structure, credit enhancements linked to our facility (e.g., security or guarantees), the nature of the borrower's assets, and other aspects of the facility to arrive at an estimate of loss in the event of default. The LGD associated with each facility rating is calculated annually by B&CA Group. The LGDs are informed by historic loss rates from both internal and external empirical data.

Ratings assignment process

BNY Mellon employs an internal system to facilitate the assignment of ratings, document the factors considered in the rating process and archive this data for historic analysis. A borrower rating is assigned when any new credit relationship is established; a facility rating is assigned when a new facility is approved.

Credit underwriters propose ratings on each deal, after which a division executive within risk management reviews and approves the final ratings. Ratings are continually monitored for accuracy in the ordinary course of business as prescribed in the Company's Risk Policy. All borrowers with credit exposure must be re-rated annually.

Borrower rating process

We rely on a variety of inputs to assign wholesale borrower ratings. External ratings, internally-developed scorecards and expert judgment are all employed to assign appropriate ratings to customers.

Facility rating process

Facility ratings derive from an internal model which considers facility type, structure, and collateral as the principal drivers of recovery, with expert judgment also allowed where these factors do not address all the potential facility risk.

Ratings migration

Our rating scales incorporate longer-term fundamentals into the rating determination, while proactively downgrading during deteriorating conditions. Downgrades occur on a proactive basis, especially during credit downturns, while upgrades tend to lag credit conditions due to conservatism. Migration of ratings within the credit portfolio is tracked regularly and subject to annual auditing.

Credit risk governance

The Company manages its wholesale credit risk at both the individual exposure level and at the portfolio level. Credit risk at the individual exposure level is managed via the credit approval process, with risk management executives responsible for approving the size, terms, and maturity of all credit exposures, as well as assigning and maintaining borrower and facility ratings.

Credit risk at the portfolio level is managed by a centralized group, which calculates our economic capital for credit risk and loan loss reserves. Committees meet within risk management to review risk policies, modeling and quantitative approaches. Committees also meet on each sub-portfolio to set exposure limits, review concentrations, set portfolio strategy, and discuss improvements to the credit risk management framework.

Quantification of wholesale risk parameters, Summary of Advanced Approaches requirements and Company implementation

Quantification is the process of translating observed risk characteristics into meaningful measurements based on observed data. Simply put, it is the process to derive the numerical components of the credit risk rating system for use in risk management. The quantification process is subject to the governance processes described above.

The results of the quantification process are essential to the risk management function at the Company and are applied in risk quantification under regulatory capital standards. As these risk parameters are used to evaluate individual credits and the overall portfolio and will ultimately determine regulatory capital, they must be determined with a high degree of accuracy.

BNY Mellon has historically had a low default portfolio for wholesale exposures and consequently, has been forced to rely upon supplemental external data in order to calibrate the quantification system. BNY Mellon obtains the data from numerous external sources to augment its internal historic data. Internal systems have been improved to track all data relevant for quantification, but external data will likely continue to be necessary indefinitely, to address the size and low default profile of the portfolio.

Quantification of PD

Our PD quantification model uses information of credit ratings and observed default rates in Standard and Poor's ("S&P") measure of rating bands and loans in order to estimate PD of given BNY Mellon internal borrower ratings. The PD estimates are long-run averages of default rates for S&P rating categories. The Company relies upon external data from S&P due to the absence of sufficient internal default data by rating.

Every borrower is assigned a borrower rating that maps to one-year PDs for use in credit risk management. The PD estimates are long-run averages of observed default rates based on obligors within a one-year window. This section details the process by which borrower ratings and PDs are generated.

Borrower Ratings Basis Groups

BNY Mellon has created rating groups in which borrowers with similar risk characteristics (and therefore similar default characteristics) are grouped together. Within each rating basis group, particular benchmarks are available as starting points for the internal rating assignment workflow. Available benchmarks include a range of publicly-available ratings, as well as the output of internal scorecard models.

Once a borrower's benchmark is chosen, the rater may adjust the rating up or down based on certain factors. Adjustments address factors not appropriately considered by the chosen benchmark. Ratings are monitored and reviewed for continued accuracy in the ordinary course of business. All borrowers with credit exposure must be re-rated annually with few exceptions.

PD assignment

Once a borrower has a final rating, PD rates are applied based on an annual quantification analysis. This analysis incorporates internal and external data to determine the most appropriate PD for each rating.

Quantification of LGD

The Company assigns a rating representing the predicted loss severity to each credit facility. The model incorporates the factors named above, and allows expert adjustment by the user, as in the case of borrower ratings, which addresses factors not appropriately considered by the model.

Once final facility ratings are assigned, each rating receives an LGD percentage for use in quantitative analysis. Internal and external data as well as industry studies all contribute to the annual quantification process that sets the LGD percent for each facility rating.

Quantification of EAD

EAD reflects the entire portion of drawn amounts plus a percentage of undrawn availability. The rate of undrawn availability included in the final EAD is the UGD.

UGD is defined as the expected percent of the commitment that will be used in the event of default. The drawn portions of every facility carry an implicit UGD of 100%. Undrawn portions of facilities carry a UGD between 0% and 100% depending on the prospect for additional draws prior to default. The Company performs an annual quantification to determine the factors that affect facility usage leading up to default and to set UGD percentages based on those factors.

Uses of parameter quantification

We use the results of the quantification process for regulatory capital, economic capital and EL analyses. The EL, in turn, drives the loan loss reserve calculation.

The following tables provide details of BNY Mellon's IRB advanced approach risk parameters used to calculate RWAs and capital under the Advanced Approaches risk-based capital rules and set out the distribution of exposures by PD bands.

Wholesale exposures at June 30, 2014

(dollar amounts in millions)	EAD	Weighted Average PD *(a)*	Weighted Average LGD *(a)*	Weighted Average RW *(a)*	Undrawn Amount *(b)*	Weighted Average CCF *(c)*
General Wholesale						
0.00 to <0.15%	$ 287,696	0.04%	37.71%	13.06%	$ 33,463	62.05%
0.15 to <0.25%	571	0.22	54.00	81.60	571	100.00
0.50 to <0.75%	8,091	0.56	35.45	61.70	3,906	66.08
0.75 to <1.35%	4,575	0.90	50.93	98.00	1,891	86.05
2.50 to <5.50%	1,947	2.99	50.37	150.06	449	80.41
5.50 to <10.00%	8,551	8.75	46.89	184.74	188	61.90
20.00 to <100.00%	144	39.29	39.93	216.36	86	98.57
100.00% (default)	374	100.00	47.87	100.00	5	26.20
General Wholesale subtotal	$ 311,949	0.46%	38.22%	21.45%	$ 40,559	64.37%
OTC Derivatives, Repo-style Transactions and Margin Loans						
0.00 to <0.03%	$ 183	0.02%	54.00%	16.33%	$ —	—%
0.03 to <0.10%	7,580	0.05	52.28	17.35	—	—
0.10 to <0.15%	24,350	0.12	49.48	24.24	—	—
0.50 to <0.75%	969	0.56	37.76	46.92	—	—
0.75 to <1.35%	861	0.90	51.07	91.76	—	—
2.50 to <5.50%	714	2.62	38.07	92.45	—	—
5.50 to <10.00%	16	6.50	51.46	177.39	—	—
10.00 to <100.00%	6	39.29	47.76	244.69	—	—
Eligible Margin Loans- 300% RW	141	300.00	—	300.00	—	—
OTC Derivatives, Repo-style Transactions and Margin Loans Subtotal	34,820	0.19	49.39	27.62	—	—
Total	**$ 346,769**	**0.44%**	**39.34%**	**22.07%**	**$ 40,559**	**64.37%**

(a) Weighted averages have been weighted by the sum of EAD within each of the PD bands.
(b) Undrawn amount is defined as the difference between the drawn balance and the limit.
(c) Weighted average CCF has been weighted by the sum of undrawn amount within each of the PD bands.

At June 30, 2014, wholesale exposures were $346.8 billion. The majority of the general wholesale exposures occurred in PD band 0.00 to less than 0.15%. These exposures primarily consist of Federal Reserve Bank placements, interest bearing placements, MBS pass through securities, US Treasury and sovereign debt securities, unused loan commitments, MBS non-pass through securities, overnight sovereign bank placements, overdrafts and

leases, and loans with financial institutions. Repo-style and OTC Derivative exposures were primarily exposures to securities lending transactions, foreign exchange contracts, equity derivative contracts, and interest rate contracts.

Our general wholesale exposures consist of corporate, sovereign, bank, and real estate exposures. Separate tables for each of these components are disclosed below.

Corporate exposures at June 30, 2014

(dollar amounts in millions)	EAD	Weighted Average PD *(a)*	Weighted Average LGD *(a)*	Weighted Average RW *(a)*	Undrawn Amount *(b)*	Weighted Average CCF *(c)*
0.00 to <0.15%	$ 85,955	0.06%	42.94%	24.56%	$ 31,412	61.17%
0.15 to <0.25%	510	0.22	54.00	81.31	510	100.00
0.50 to <0.75%	6,637	0.56	32.24	58.44	3,822	65.75
0.75 to <1.35%	1,987	0.90	48.37	103.85	1,458	86.61
2.50 to <5.50%	1,554	3.05	50.07	155.66	386	80.95
5.50 to <10.00%	8,369	8.79	46.97	185.34	155	65.70
20.00 to <100.00%	57	39.29	48.96	270.54	37	96.99
100.00% (default)	365	100.00	47.72	100.00	5	26.20
Subtotal	$ 105,434	1.21%	42.87%	43.55%	$ 37,785	63.39%

Note: Please see the footnotes to the first table in this section "Credit Risk: Disclosures for Portfolios Subject to IRB Risk-based Capital Formulas" of the Report.

Corporate exposures were $105.4 billion at June 30, 2014. The majority of the exposures occurred in grades 0.00 to less than 0.15%. Exposures within this PD band totaled $86.0 billion or 82% of total corporate exposures. These exposures are primarily made up of MBS pass through securities, unused loan commitments, MBS non-pass through, debt securities, overdrafts, leases, and other loans.

Sovereign exposures at June 30, 2014

(dollar amounts in millions)	EAD	Weighted Average PD *(a)*	Weighted Average LGD *(a)*	Weighted Average RW *(a)*	Undrawn Amount *(b)*	Weighted Average CCF *(c)*
0.00 to <0.15%	$ 145,753	0.02%	30.86%	4.62%	$ 173	83.68%
0.15 to <0.25%	61	0.22	54.00	84.01	61	100.00
0.50 to <0.75%	47	0.56	42.04	67.82	—	—
Subtotal	$ 145,861	0.02%	30.87%	4.67%	$ 234	87.94%

Note: Please see the footnotes to the first table in this section "Credit Risk: Disclosures for Portfolios Subject to IRB Risk-based Capital Formulas" of the Report.

Sovereign exposures were $145.9 billion at June 30, 2014. The majority of the exposures occurred in grades 0.00 to less than 0.15%. Exposures within this PD band totaled $145.8 billion or nearly 100% of total sovereign exposures. These exposures are primarily made up of Federal Reserve Bank placements, interest bearing placements, US Treasury securities, sovereign government debt securities, and overnight placements.

Bank exposures at June 30, 2014

(dollar amounts in millions)	EAD	Weighted Average PD *(a)*	Weighted Average LGD *(a)*	Weighted Average RW *(a)*	Undrawn Amount *(b)*	Weighted Average CCF *(c)*
0.00 to <0.15%	$ 55,011	0.08%	47.59%	17.17%	$ 1,829	75.56%
0.50 to <0.75%	1,228	0.56	51.27	76.03	70	90.25
0.75 to <1.35%	1,988	0.90	53.32	90.64	136	83.17
2.50 to <5.50%	322	2.76	52.68	128.44	28	73.45
5.50 to <10.00%	174	7.03	43.32	155.65	33	44.24
20.00 to <100.00%	83	39.29	33.33	176.82	49	99.77
Subtotal	$ 58,806	0.21%	47.86%	22.13%	$ 2,145	76.56%

Note: Please see the footnotes to the first table in this section "Credit Risk: Disclosures for Portfolios Subject to IRB Risk-based Capital Formulas" of the Report.

Bank exposures were $58.8 billion at June 30, 2014. The majority of the exposures occurred in grades 0.00 to less than 0.15%. Exposures within this PD band totaled $55.0 billion or 94% of total bank exposures. These exposures are primarily made up of interest bearing deposits and placements and loans with financial institutions.

Real Estate exposures at June 30, 2014

(dollar amounts in millions)	EAD	Weighted Average PD *(a)*	Weighted Average LGD *(a)*	Weighted Average RW *(a)*	Undrawn Amount *(b)*	Weighted Average CCF *(c)*
0.00 to <0.15%	$ 977	0.09%	42.76%	29.86%	$ 49	48.66%
0.50 to <0.75%	179	0.56	44.09	82.50	14	33.73
0.75 to <1.35%	600	0.90	51.53	102.99	297	84.61
2.50 to <5.50%	71	2.56	46.46	125.58	35	80.10
5.50 to <10.00%	8	8.03	47.00	197.21	—	—
20.00 to <100.00%	4	39.29	47.00	257.76	—	—
100.00% (default)	9	100.00	54.09	100.00	—	26.20
Subtotal	$ 1,848	1.07%	45.96%	63.96%	$ 395	77.90%

Note: Please see the footnotes to the first table in this section "Credit Risk: Disclosures for Portfolios Subject to IRB Risk-based Capital Formulas" of the Report. Real estate includes HVCRE and IPRE.

Real estate exposures were $1.8 billion at June 30, 2014. The majority of the exposures occurred in grades 0.00 to less than 0.15% and in grades 0.75 to 1.35%.

Retail quantification

Retail segmentation process

The retail segmentation process uses various factors relevant to the credit risk of retail borrowers to group those borrowers into pools for risk quantification purposes. Quantification of each parameter (PD, LGD and EAD) then occurs at the pool level.

In the first phase of segmentation, the Company assigns each retail exposure to one of three retail subcategories:

1) **Exposures Secured by Residential Mortgages** – include primarily mortgages (first and subsequent) on one-to-four-family residential properties.

2) **Qualifying Revolving Exposures (QRE)** – include revolving exposures unconditionally cancelable by the Company, with total exposure less than $100,000.

3) **Other Retail Exposures** – include exposures where BNY Mellon, N.A. provides consumer and non-consumer lines of credit to certain unaffiliated third-party borrowers that are secured by securities owned by the borrowers or certain unaffiliated-third party guarantors.

Within each of these broader segments, we delineate additional pools based on relevant risk criteria. The pooling methodology aims to provide meaningful differentiation so that there are no material differences in the EL severity of individual exposures within each pool. Every retail exposure must be categorized in this way.

Retail parameters

PD, LGD and EAD parameter calculations are performed on non-defaulted retail exposures. For defaulted exposures we do not need these parameters because they are automatically risk weighted at 100%. The calculations are done at both the pool and sub pool level and mapped to each retail exposure within these pools. Historical data retention is a critical component of calculation and validation of retail parameters. External data augments our internal data where doing so provides more robust risk estimates.

Defaulted Retail Exposures

Retail exposures are considered defaulted if certain past due criteria are met. These criteria vary depending on segment and product type.

The following table presents BNY Mellon's retail exposures.

Retail Exposures by PD at June 30, 2014

(dollar amounts in millions)	EAD	Weighted Average PD *(a)*	Weighted Average LGD *(a)*	Weighted Average RW *(a)*	Undrawn Amount *(b)*
Residential mortgage					
0.10 to < 0.15%	$ 5,590	0.11%	23.84%	6.26%	$ —
0.25 to < 0.35%	23	0.25	48.57	22.99	—
0.75 to < 1.35%	278	0.81	36.80	40.04	—
1.35 to < 2.50%	3	1.83	100.00	184.97	—
2.50 to < 5.50%	324	5.04	42.27	139.80	—
10.00 to < 20.00%	1	11.67	22.96	110.65	—
20.00 to < 100%	5	59.10	40.74	171.89	—
100.00% (default)	116	100.00	39.16	100.00	—
Revolving					
0.10 to < 0.15%	113	0.11	100.00	25.56	—
1.35 to < 2.50%	126	1.97	100.00	193.60	126
100.00% (default)	1	100.00	100.00	100.00	—
Other Retail					
1.00 to < 1.50%	1,754	1.00	10.00	10.20	—
2.00 to < 2.50%	4	2.00	10.00	12.89	—
4.00 to < 5.00%	22	4.95	100.00	147.45	—
8.00 to < 10.00%	22	8.39	100.00	159.72	—
100.00% (default)	1	100.00	100.00	100.00	—
Total Retail	**$ 8,383**	**2.03%**	**24.99%**	**18.77%**	**$ 126**

(a) Weighted averages have been weighted by the sum of EAD within each of the PD bands.
(b) Undrawn amount is defined as the difference between the drawn balance and the limit.

Retail exposures were $8.4 billion at June 30, 2014. The majority of the exposures occurred in residential mortgage for grades 0.10 to less than 0.15% and other retail loans for grades 1.00 to less than 1.50%. Residential mortgages exposures are primarily due to exposures in seven-year fixed one-year adjustable rate mortgage loans, one-to-four family closed end first lean real estate loans, and five-year fixed one-year adjustable rate mortgage loans. Retail loan exposures are primarily due to consumer single payment loans.

Net charge-offs

The following table presents BNY Mellon's net charge-offs for the second quarter of 2014.

Net (charge-offs) recoveries *(in millions)*		2Q 2014
Wholesale	$	(3)
Retail:		
Residential		—
QRE		—
Other		—
Total retail		—
Total	$	(3)

Net charge-offs were $3 million in the second quarter of 2014, and were primarily in the foreign loan portfolio, within the wholesale category.

Counterparty Credit Risk for Derivative Contracts, Repo-Style Transactions and Eligible Margin Loans

BNY Mellon engages in market-making activities on behalf of its customers in the FX cash and derivatives markets. This function requires us to regularly enter into future-settling financial contracts with customers ("counterparties") whose market values will fluctuate day-to-day based on prevailing market conditions. Whenever the market value of such positions is positive, it represents an effective extension of credit by the Company to the customer. If the customer were not to perform on its obligations in that situation, we would be at risk of suffering an economic loss on the value of those contracts and may need to resort to recovering the lost value in bankruptcy courts. This risk is known as "counterparty default risk".

Additionally, BNY Mellon can suffer market losses due to the deterioration of the credit quality of a counterparty short of its non-performance or default. Since the value of a counterparty's credit quality is factored into the market valuation of the portfolio held with that counterparty, falling credit quality can reduce this value and require a negative adjustment in our income statement. A significant and broad-based deterioration in credit quality across BNY Mellon's trading counterparties can result in a material loss of market value. This risk is known as Credit Valuation Adjustment ("CVA") risk.

Counterparty default risk and CVA risk together represent two components of overall counterparty risk assumed by BNY Mellon in its FX and derivative market-making activities.

BNY Mellon's counterparty risk is heavily concentrated in our largest bank subsidiary, The Bank of New York Mellon, resulting from market-making activities of its Global Markets business which operates in FX cash markets and also in interest rate, equity and FX derivative markets. Incremental counterparty risk is also assumed in the operations of BNY Mellon Capital Markets which transacts MBS To-be-announced (which are forward mortgage securities, such as pass-throughs issued by agencies) and forward-settling US Treasury trades with its customers.

Marginal amounts of counterparty risk come from a small book of credit derivatives that The Bank of New York Mellon periodically enters into to synthetically reduce concentrations of credit exposures existing in its loan book.

BNY Mellon engages in a variety of risk management activities to control and limit the degree of counterparty risk assumed by its businesses. These activities include:

- Limit management of various counterparty-level exposure metrics
- Set up of netting agreements and collateral exchange terms with large counterparties
- Approval and monitoring of collateral exchanges
- Calculation and review of stress and sensitivity metrics
- Monitoring of wrong-way risk reports
- Review of country-level risk concentrations
- Monitoring of settlement failures
- Special review of "large-exposure" counterparties
- Economic capital analyses
- Active hedging of CVA risk by the business
- Other ad hoc analyses

To support its high-volume FX business, BNY Mellon uses technology-driven, real-time pre-trade credit checks that provide indications to the FX sales team or to the electronic platform executing trades whether the proposed business fits within proper

credit parameters. For trades touching the sales area, sales team members use these signals to ensure the proposal fits within existing credit lines or to prompt a request for special approval if a limit will be breached. For electronic platforms, the pre-trade credit response is final. If a customer's trade request fails on credit grounds, the trade is not executed.

Additionally, we have established legal agreements with many of our counterparties that help reduce counterparty risk inherent in FX and derivative trading activity.

The most common legal agreement used by market participants is a master netting agreement that can significantly reduce exposure size by permitting effective offsets to exposure provided by any "negatively valued" trades existing with the counterparty. In particular, two kinds of netting can be negotiated with counterparties under such an agreement.

Close-out netting provisions provide BNY Mellon a strong legal basis to view the exposure to a defaulted counterparty as the netted value of the various positively and negatively valued trades in the portfolio instead of just the sum of the positively valued trades as would be the prudent way to view exposure in the absence of a netting agreement.

Settlement netting pertains to exchanges of FX currency amounts on the settlement date, and requires the counterparties to net offsetting currency flows into a single netted currency flow. This helps reduce the size of "pay away" risk when settling contracts.

Master netting agreements are usually based on two legal templates - the ISDA Master Agreement developed by the International Swaps and Derivatives Association ("ISDA") and the Foreign Exchange and Currency Option Master Agreement.

Additionally, within a master netting agreement, collateral exchange terms can be defined in a "Collateral Support Annex" ("CSA") to establish rules by which the trading counterparties are required to post collateral to each other against the netted market value of open trades covered by the agreement.

Key CSA terms include:

- Unsecured threshold - Collateral is exchanged only when the netted exposure is greater than the unsecured threshold.
- Minimum transfer amount - The minimum posting amount for new collateral calls.
- Monitoring frequency - Frequency at which collateral calls are made, usually daily.
- Haircuts on security collateral - Haircuts protect the party accepting the collateral against any abrupt drops in its value due to market changes.
- Types of collateral accepted under the agreement - BNY Mellon generally accepts cash, U.S. Treasuries and U.S. Agency securities. Other securities will be accepted on occasion with the approval of Risk Management.

In certain cases, BNY Mellon will establish collateral exchange terms outside a CSA on a contract by contract basis. This is internally known as trade-specific collateral, and can take the form of an initial cash or security posting to cover the potential future exposure of a particular trade. Trade-specific collateral terms are written into the trade contract -the trade "confirmation" - and often arise as a feature of certain equity derivatives where the counterparty agrees to pledge shares supporting the settlement of the contract at the start of the trade instead of at its maturity.

Additionally, optional termination triggers can be defined within a master agreement that permit BNY Mellon to force the counterparty to immediately cash-settle the current market value of all open contracts if the counterparty's credit rating falls below a certain trigger level. These termination events protect us from having to hold on to open contracts with a counterparty experiencing credit difficulties.

When both netting and collateral terms are actively in operation, counterparty risk can be reduced to a small fraction of what it would be otherwise. These arrangements never completely eliminate counterparty risk, but they are effective in significantly reducing that risk.

For additional details on these and other credit risk management methods employed by BNY Mellon, see the "Credit Risk Mitigation" section of this Report.

There were no counterparty default losses in the second quarter of 2014.

The Derivatives Documentation Committee reviews and approves variations in the Company's documentation standards as it relates to derivative transactions. In addition, this committee reviews all outstanding confirmations to identify potential exposure to the Company.

Economic Capital

As discussed previously in the "Capital Adequacy" section of this Report, BNY Mellon has implemented a methodology to estimate Company-wide economic capital needs to support the safe-operation of its various businesses including the market-making FX and derivative businesses, repo-style transactions and eligible margin loans. The computation and review of economic capital is a part of BNY Mellon's internal capital adequacy assessment process and, along with regulatory capital, represents a key risk management activity. This ensures that the actual level of capital held by the Company is commensurate with its risk profile and that it is sufficient to provide the financial flexibility to undertake future strategic business initiatives. Please see the discussion in the "Capital Adequacy - Economic Capital" section of this Report, for additional information regarding the development and approval of the framework and methodologies used to quantify each of our risk types.

Credit Limits

We assess the credit risk of our counterparties through regular examination of their financial statements, confidential communication with the management of those counterparties and regular monitoring of publicly available credit rating information. This and other information is used to develop proprietary credit rating metrics used to assess credit quality.

For FX and derivative businesses, Credit Underwriting teams set and monitor three types of counterparty limits to control the pre-settlement and settlement risk of trades. Pre-settlement risk is the risk that a counterparty defaults before it has fulfilled all its contractual obligations causing a loss of any positive net market value to BNY Mellon. Settlement risk - sometimes called pay-away risk - is the risk that on the settlement of an FX contract, BNY Mellon pays its currency obligation to the counterparty but the counterparty never pays in its currency obligation to BNY Mellon causing a loss of the whole contract principal.

Pre-settlement risk is managed through limits established on a stressed exposure and the maximum tenor of contracts. The stressed exposure calculation — internally called Cross-Product Potential Risk ("CPPR") — captures the 95th percentile peak exposure that could be produced by a counterparty's portfolio over its lifetime. It is based on a Monte Carlo simulation of market factors that impact the pricing of the contracts and considers diversification of exposures across product categories and any netting and collateral arrangements that may be in place.

The tenor limit works in conjunction with the CPPR limit to control pre-settlement exposures, and defines the longest trade maturity BNY Mellon is willing to accept with a counterparty.

For FX trading, daily settlement limits are established to control the aggregate size of FX amounts permitted to settle with a counterparty on any given settlement date.

Limits are actively monitored using end-of-day snapshots and also on a real-time basis for FX activity using intraday reports and desktop monitoring tools. Detailed policies and procedures govern the limit management process and cover activities such as:

- Formal acknowledgment procedures for limit excesses
- Strict adherence by on-site credit officers to excess approval authorities, and escalation procedures when those authorities are exceeded
- Approval and monitoring of collateral amounts posted and received
- Monitoring of settlement fails
- Periodic portfolio and master agreement documentation reviews

Credit risk also includes operational credit risk arising from investment servicing activities.

We manage credit risk at both the individual exposure level as well as at the portfolio level. Credit risk at the individual exposure level is managed through the credit approval system involving Operational Credit

Managers, ("OCMs"), Credit Portfolio Managers ("CPMs"), Credit Division Heads ("CDHs"), the CCO and the CRO. This group, collectively, "Credit Risk Management", is responsible for approving the size, terms and maturity of all credit exposures as well as the ongoing monitoring of the exposures. BNY Mellon employs a "Signature System" for all credit approvals. A minimum requirement of the "Signature System" is that a proposal must have the signature approval of an OCM or CPM, or higher (unless delegated per policy). In addition, OCMs and CPMs are responsible for assigning and maintaining the risk ratings on each exposure.

Risk Appetite and Tolerance

BNY Mellon's appetite for credit risk is consistent with its overall strategy to maintain at least an "A" agency rating. We have well defined tolerances for credit risk and provide credit to investment grade names to largely support the generation of noncredit, fee-based revenue. BNY Mellon maintains a high-grade granular portfolio of loans and leases, avoids single name/industry concentrations, may hedge certain assets, and eliminates exposures that are unaligned with its overall strategy.

BNY Mellon will assume credit risk to the extent that it can maintain Tier 1 capital in excess of economic capital at a 99.90% confidence interval. Credit risk is also managed by annually setting guideline limits on economic capital for certain industries and various portfolio groups. The Risk Policy Manual, to which changes are reviewed annually by the Risk Committee of the Board of Directors, contains these guideline limits. In effect, internal credit guidelines are set and monitored for those activities that generate credit risk typically based on the size of the exposure and the maximum tenor of the extended credit.

Credit Valuation Adjustment

The mark-to-market valuation for FX and derivative contracts incorporates the impact of counterparty credit spreads above the level of the risk-free curve as required by ASC 820 - Fair Value Measurements and Disclosures. This "CVA adjustment" reflects an adjustment to risk-free value for the possibility payment may not be received because the counterparty defaults. This adjustment is made using internal credit quality assignments and key spread indices mapped to these internal assignments. In cases where a counterparty is deemed impaired, further analyses are performed to value positions.

Credit Rating Downgrade

Certain OTC derivative contracts and/or collateral agreements of The Bank of New York Mellon, our largest banking subsidiary and the subsidiary through which BNY Mellon enters into the substantial majority of all of its OTC derivative contracts and/or collateral agreements, contain provisions that may require us to take certain actions if The Bank of New York Mellon's public debt rating fell to a certain level. Early termination provisions, or "close-out" agreements, in those contracts could trigger immediate payment of outstanding contracts that are in net liability positions. Certain collateral agreements would require The Bank of New York Mellon to immediately post additional collateral to cover some or all of The Bank of New York Mellon's liabilities to a counterparty.

The following table shows the fair value of contracts falling under early termination provisions that were in net liability positions as of June 30, 2014 for three key ratings triggers:

If The Bank of New York Mellon's rating was changed to (Moody's/S&P)	**Potential close-out exposures (fair value)***(a)*
A3/A-	$ 41 million
Baa2/BBB	$ 801 million
Ba1/BB+	$ 2,044 million

(a) The amounts represent potential total close-out values if The Bank of New York Mellon's rating were to immediately drop to the indicated levels.

The aggregated fair value of contracts impacting potential trade close-out amounts and collateral obligations can fluctuate from quarter to quarter due to changes in market conditions, changes in the composition of counterparty trades, new business, or changes to the agreement definitions establishing close-out or collateral obligations.

Additionally, if The Bank of New York Mellon's debt rating had fallen below investment grade on June 30, 2014, existing collateral arrangements would have required us to have posted an additional $403 million of collateral.

Derivatives

The Final Capital Rules allow banks to use the Current Exposure Method ("CEM") or the Internal Models Method ("IMM"), after receiving prior written approval from the regulators, for estimating EAD associated with counterparty trades. BNY Mellon currently uses the CEM approach for estimating EAD. The table below presents BNY Mellon's derivative exposure.

Derivatives	June 30, 2014							
(in millions)	**OTC Derivatives**			**Cleared Derivatives**				
	Positive Fair Value EAD	**PFE**	**Total EAD**	**Positive Fair Value EAD**	**PFE**	**Total EAD**	**Total EAD**
Interest rate contracts	$ 14,228	$ 3,726	$ 17,954	$ 2,050	$ 1,468	$ 3,518	**$ 21,472**
Foreign exchange contracts	2,504	5,563	8,067	—	—	—	**8,067**
Equity derivative contracts	1,372	2,505	3,877	189	800	989	**4,866**
Credit derivatives	—	1	1	—	—	—	**1**
Default Fund Contributions	—	—	—	88	—	88	**88**
Other	87	—	87	465	—	465	**552**
Total	**$ 18,191**	**$ 11,795**	**$ 29,986**	**$ 2,792**	**$ 2,268**	**$ 5,060**	**$ 35,046**
Netting							**(18,761)**
Netted EAD pre Collateral							**$ 16,285**
Collateral applied							**(2,318)**
Total after netting and collateral							**$ 13,967**

EAD on derivatives was approximately $14.0 billion at June 30, 2014, consisting of exposure to OTC derivatives and exposures to cleared derivatives. OTC derivatives exposures primarily consisted of interest rate agreements, foreign exchange contracts, and equity derivative contracts. Cleared derivatives exposures primarily consisted of interest rate contracts, equity derivative contracts and default fund contributions. Total EAD for OTC and cleared derivatives was partially offset by the effect of netting agreements and collateral applied. Collateral applied consists primarily of cash, followed by US Government Sponsored Entity and Agency securities. We also held a small amount of securities issued by Corporations and Public Sector Entities.

Repo Style Transactions

A securities lending transaction is a fully collateralized transaction in which the owner of a security agrees to lend the security (typically through an agent, in our case, The Bank of New York Mellon), to a borrower, usually a broker or bank, on an open, overnight or term basis, under the terms of a prearranged contract, which normally matures in less than 90 days.

We typically lend securities with indemnification against borrower default. We generally require the borrower to provide collateral with a minimum value of 102% of the fair value of the securities borrowed, which is monitored on a daily basis, thus reducing credit risk. Market risk can also arise in securities lending transactions. These risks are controlled through policies limiting the level of risk that can be undertaken. Securities lending transactions are generally entered into only with highly-rated counterparties. BNY Mellon has indemnified activity of $296 billion as of June 30, 2014. Securities lending indemnifications were secured by collateral of $306 billion at June 30, 2014.

CIBC Mellon, a joint venture between BNY Mellon and the Canadian Imperial Bank of Commerce ("CIBC"), engages in securities lending activities. CIBC Mellon, BNY Mellon, and CIBC jointly and severally indemnify securities lenders against specific types of borrower default. At June 30, 2014, $63 billion of borrowings at CIBC Mellon for which BNY Mellon acts as agent on behalf of CIBC Mellon clients, were secured by collateral of $66 billion. If, upon a default, a borrower's collateral was not sufficient to cover its related obligations, certain losses related to the indemnification could be covered by the indemnitors.

Under the Final Capital Rules, all indemnified securities lending activities, including securities lent with cash collateral received and all indemnified cash reinvestments into reverse repos are included in our RWA calculation.

For estimating EAD associated with the credit risk of the above mentioned repo-style transactions, the Final Capital Rules allows banks to use the collateral haircut approach or, after receiving prior written approval from the regulators, the simple VaR or IMM. As an alternative to mitigating credit risk through EAD adjustment, banks can adjust the LGD used in calculating the risk weight and expected credit loss. BNY Mellon is currently either applying the collateral haircut approach or adjusting the LGD for repo-style transactions.

The following table provides EAD for counterparty credit risk of repo-style transactions, by credit risk mitigation method and product type.

Counterparty credit risk exposure – analysis by product at June 30, 2014

(in millions)	EAD Adjustment Method	LGD Adjustment Method	Total
Securities lending	$ 191	$ —	$ 191
Repo/Reverse Repo	21,389	106	21,495
Securities/Broker/Margin lending	1,007	1,181	2,188
Total	**$ 22,587**	**$ 1,287**	**$ 23,874**

Total counterparty credit risk exposure for repo-style transactions at June 30, 2014 was $23.9 billion, primarily consisting of repo and reverse repo transactions.

Periodically, we purchase single name CDS, index credit default protection or other forms of credit protection to reduce our exposure to certain institutions or industries. All proposed CDS transactions are reviewed by our Risk Management's Portfolio Monitoring & Hedging Group. Approvals from the Chief Risk Policy Officer and the Head of Enterprise-Wide Market Risk are required for all CDS transactions.

The table below shows the notional amount of CDS which BNY Mellon used for its own credit portfolio. As of June 30, 2014, BNY Mellon was not able to reduce its EAD through the use of CDS as credit mitigants because all purchased CDS mature in less than 3 months. The exposure categories and geographic distributions presented below represent those of the protection provider rather than the underlying borrower. All protection providers were rated as investment grade as of June 30, 2014. All credit exposures mitigated through CDS purchased shown in the next table were for corporate borrowers.

Credit default swaps

(in millions)	June 30, 2014	
	Purchased	Sold
Banks:		
United States	$ 20	$ —
Total CDS	**$ 20**	**$ —**

Note: BNY Mellon's credit derivatives consist solely of CDS.

Credit Risk Mitigation

BNY Mellon manages credit risk through a variety of credit risk mitigation strategies including the following (each of which is discussed in additional detail below):

- CDS (as shown in the table above);
- Asset Sales (for traditional loan products);
- Active collateralization (for repo-style transactions and derivative transactions); and
- Master agreements/netting arrangements (for derivative transactions).

Credit Risk arises from several sources, including traditional lending activities and credit products, operational credit exposures and "Global Market exposures." Each of these items is discussed below.

Traditional lending activities and credit products, include:

- Loans, lease commitments, advised and committed lines of credit (used or unused) and guidance lines for commercial transactions, whether secured or unsecured;
- Facilities to issue or confirm letters of credit
- Acceptances;
- Overnight overdraft lines;
- Interbank money market/placement and federal funds with maturity greater than or equal to two business days;
- Federal funds purchased and segregated offset finance products;
- Receivables purchases without recourse to the seller;
- Secured overnight exposure to broker/dealers (including margin loans).

Operational credit exposure consists of extensions of intraday credit provided as part of our investment servicing businesses, which include principally Asset Servicing, Cash Management, Corporate Trust and, to a lesser extent, Depositary Receipts, Treasury Services and Broker/Dealer Services. This type of credit exposure is associated with products with low historical credit losses. Operational credit exposures are also short-term in nature and normally require the occurrence of two separate events to generate a loss (e.g. the transaction fails causing an extension of credit and then the counter-party defaults).

Examples of operational credit exposures include:

- Daylight and overnight lending facilities, including daylight overdrafts, day loans to broker/dealers and overnight federal funds purchased;

- Securities-related facilities, including repurchase agreements repos/reverse repos, securities lending, tri-party limits, custody and clearing facilities, margin deposit limits, guidance lines for corporate trust, depositary receipts and government securities clearance.

"Global Markets exposure" consists of derivative exposure used for trading and interest rate management purposes. In providing derivative products to our clients, we are assuming counterparty credit risk. BNY Mellon will incur a loss on a derivative contract if rates move in our favor vis-à-vis the transaction and if the counterparty defaults.

Examples of Global Markets exposures include:

- Foreign Currency Contracts;
- Foreign Currency Option Contracts;
- Interest Rate Swaps, Options, Caps and Floors;
- Futures and Forward Contracts;
- Equity Options;
- Credit Default Swaps;
- Total Return Swaps.

Credit Default Swaps

CDS may be used for traditional lending and extensions of credit under three circumstances: (1) to hedge large individual name concentrations (2) to hedge large industry concentrations and (3) to hedge idiosyncratic risk, in unique situations where such risk is present. For more information on our CDS, see the "Counterparty Risk for OTC Derivative Contracts, Repo-style Transactions and Eligible Margin Loans" section of this Report. As in that section, the CRO and the Head of Enterprise-Wide Market Risk provide final approval for the use of CDS.

Asset Sales

In certain instances, we may also decide to sell part of our credit exposure. This type of mitigation is used primarily for traditional lending exposure. The decision to sell or hedge an asset is based on relative cost as well as the potential impact to the client. Under the terms of credit agreements, we are typically required to seek the client's approval before selling part of our exposure.

Active Collateralization

The acceptance of collateral with at least daily margining is used for various operational credit exposures, including repo-style and derivative exposures. In Securities Lending for example, the borrower is required to post collateral for lending activity with additional margins that can range from 102% to 110%. The collateral received from the borrower falls within the acceptable collateral types defined under the Final Capital rules, including cash collateral and other types of security collateral including sovereign bonds, both US and non-US, and equity security collateral. The collateral amounts with the borrowers are adjusted at the beginning of every day to reflect the prior days' market activity and the collateral amounts are adjusted through-out the day for loan activity with the borrower.

Collateral is also used to mitigate the counterparty credit risk associated with derivative transactions. In negotiating a collateral agreement, the parties must agree upon an unsecured threshold. Exceeding this threshold triggers a collateral call from the exposed counterparty to cover the mark-to-market exposure above the threshold. The unsecured threshold must be approved through appropriate credit channels and can range from zero to any positive amount. Some collateral agreements may feature downgrade provisions that reduce the unsecured threshold if a counterparty were to be downgraded by a major rating agency such as Standard & Poor's, Moody's, and Fitch.

Acceptable collateral includes cash, U.S. Treasury securities, and/or U.S. Government Agency securities plus any other collateral that Credit Risk Management may approve occasionally. The collateral must be marked-to-market daily, and any haircuts applied to these securities to determine the effective total amount posted must follow our internal policies. These haircuts are intended to protect BNY Mellon in case the value of the collateral suddenly falls under changing market conditions.

Credit Risk Management takes particular care to ensure that the wrong-way risk between collateral and exposures does not exist. Wrong-way risk results when the exposure to the counterparty increases when the counterparty's credit quality deteriorates. That is, it arises when default risk and credit exposure increase together.

There are two types of wrong-way risk. Specific wrong way risk arises when the relationship between credit quality and exposure is explicit and direct. For example, if exposure is collateralized by a counterparty's own equity, it produces an obvious specific wrong-way risk situation. General wrong way risk arises where the relationship is not explicit, but statistically material. For instance, if exposure is collateralized by a security that is strongly correlated with the counterparty's credit quality (i.e., security value tends to fall when credit quality falls), a general wrong-way risk situation may exist.

Master Agreements and Netting

All terms for collateralized trading are governed by a CSA which forms part of a Master Agreement. Master Agreements and netting are used to mitigate counterparty credit risk arising from global markets trading. All counterparties that trade term exposures are expected to sign a Master Agreement. Since 1987, ISDA has offered its Master Agreement as a standardized contract that provides terms for trading and settling a broad range of derivative transactions. It incorporates schedules that allow contracting parties to customize the terms and conditions to their mutual satisfaction to cover termination events, netting arrangements, security and other matters. BNY Mellon uses either the 1992 revised ISDA Master Agreement or the 2002 ISDA Master Agreement as the foundation for bilateral netting agreements with our counterparties regarding derivative products such as interest rate swaps. If the ISDA agreement covers multiple products (e.g. interest rate swaps currency and equity derivatives), it may serve as a "Master Netting Agreement".

Netting provisions are contained in the Master Agreements described above. Netting may take two different forms: close-out netting and settlement netting. Close-out netting refers to an agreement between BNY Mellon and a counterparty so that upon specified events of default, the non-defaulting party can require that:

- All open derivative contracts be marked-to-market (present valued) and summed;
- A single net payment be made as final settlement to whichever party holds the overall profit from those contracts;
- Collateral be liquidated (if held).

Settlement netting (also called payment netting) requires that all foreign exchange obligations between us and a counterparty, that are payable on the same settlement date, be netted to produce a single payment obligation for each currency traded.

Concentration Risk

While traditionally concentration risk is associated with credit risk, we have taken a broader view of concentration risk. We define concentration risk as the risk of loss not only associated with outsized credit granted to individual or interrelated borrowers but also to any significant interrelated risk exposures that may produce large losses or may threaten the safety and soundness of BNY Mellon. Concentration risk may arise from connected factors which are not readily apparent and identifiable. It can take the form of intra-risk concentrations and cross-risk concentrations. Intra-risk credit concentrations may arise from outsized credit (default) risk exposures to one or more exposure characteristics, such as a single obligor or interconnected obligors, economic sector, geographic location and/or financial instrument/ product type. Cross-risk concentrations arise from outsized exposures to one or more common exposure characteristics when viewed across multiple risk types.

We have well-established policies and procedures to identify, manage and measure credit risk concentrations. We manage credit risk concentrations at both the individual exposure level as well as at the portfolio level, through the use of the following specific limits and underwriting guidelines:

- Target portfolio values should not exceed industry or country notional exposure portfolio limits;
- Target portfolio values should not exceed industry economic capital portfolio limits;
- In addition to the credit underwriting approval process, all new committed transactions for counterparties with aggregate traditional lending exposure greater than $75 million are presented and reviewed for appropriate relationship revenue to risk exposure at a weekly meeting chaired by the Chief Corporate Lending Officer. For complex or unusual transactions, the traditional lending exposure review criteria lowers to $15 million. Global Client Management, Lines of Business and Credit

Risk Management functions participate in the weekly meeting.

Additionally, BNY Mellon's Portfolio Management Committees identify and manage credit risk concentrations by periodically reviewing exposures to identify "Pools of Risk." Pools of Risk are delineated by either:

- An entity where BNY Mellon is deemed to have an ownership interest having exposure to BNY Mellon that exceeds $500 million;
- Exposures administered under a special industries lending group;
- Individual country exposures administered by the International Banking Sector;
- Any industry which has an industry lending guideline;
- Any group of exposures or customers within an industry which, as a group, pose significant credit or operational risks to the Company due to the nature of our business in that industry or due to the financial condition of the industry.

Each Portfolio Management Committee recommends specific Pools of Risk that warrant a more comprehensive review. The reviews are conducted by the appropriate CDH, one or more Credit Risk Managers, one or more representatives from B&CA and may include one or more representatives from the appropriate Global Client Management or Business Division. This group produces a report identifying the quantity, quality, and liquidity of the credit exposure to the Pools of Risk by calculating the total exposure, exposure composition and the weighted average borrower and facility ratings. The report and its conclusions are presented to the appropriate Portfolio Management Committee.

Finally, BNY Mellon also accounts for credit risk concentrations in its capital estimates through its credit risk economic capital model.

Additionally, we use enterprise-wide stress testing to evaluate cross-risk concentrations. One of the goals of enterprise-wide stress testing is to assess the worst impact resulting from a stressed scenario on one or more interrelated exposure characteristics across all risk types so that potentially significant cross-risk concentrations can be understood.

For more detail regarding our credit risk management practices, see the "Credit Risk: General Disclosures" and "Credit Risk: Disclosures for Portfolios Subject to IRB Risk-based Capital Formulas" sections of this Report.

Securitizations

Overview

As of June 30, 2014 , BNY Mellon did not originate securitization transactions. Rather, we are exposed to securitization products as a result of either purchasing securitizations originated by others into our investment portfolio or through extending credit to Special Purpose Vehicles ("SPVs") or non-operating companies defined as securitization exposures under the Final Capital Rules. The exposure amount and RWA for securitization exposures found in the banking book, and non-covered positions from the trading book are calculated in accordance with the Final Capital Rules hierarchy of approaches. The Company at June 30, 2014 was primarily utilizing Simplified Supervisory Formula Approach ("SSFA"). Currently we do not hedge our securitization portfolio.

Risk Governance

Our ALCO, which reports to the SRMC, has several responsibilities related to balance sheet management, including providing oversight of the investment portfolio, monitoring interest rate sensitivity, monitoring balance sheet and capital ratios and ensuring adequate liquidity. The SRMC is the most senior management body responsible for evaluating emerging risks and for reviewing any material breaches to our risk appetite and approves action plans required to remediate any issues. The SRMC provides oversight for the risk management, compliance and ethics framework. The CEO, CRO and CFO are among SRMC's members.

Objectives of the Company's Securitization Activity

BNY Mellon holds securitization exposures primarily from four activities: investment portfolio exposures, resecuritization exposures, as a derivatives counterparty to securitization transactions and as an investor in Variable Funding Notes ("VFNs"). These securitization activities are described in more detail in the following paragraphs.

Securitization exposures in the investment portfolio—

BNY Mellon is an investor in securities that qualify as securitization exposures under Basel III. These are composed mostly of highly rated, investment grade securities and include, among other types, investments in residential mortgage backed securities, commercial MBS and other asset backed securities. The investment portfolio in its entirety is managed by our Corporate Treasury function and the portfolio's direction, composition, and riskiness is monitored on a daily basis.

As discussed in additional detail below RWAs for securitization exposures are calculated using either of the Supervisory Formula Approach ("SFA"), SSFA, a 100% risk weight (for OTC derivatives) or the 1250% risk weighting approach depending on the appropriate treatment for the exposure.

Resecuritization exposures—

BNY Mellon's investment portfolio includes some resecuritization exposures, almost all of which are senior tranches from seasoned, pre-crisis CLO transactions. The underlying securitization content within each of these CLOs is typically composed of debt tranches issued by other CLOs.

As a derivatives counterparty to securitization transactions—

BNY Mellon has derivative exposures, primarily Interest Rate Potential Risk exposures and Foreign Exchange Potential Risk, that support securitization transactions and are considered securitization exposures under the Final Capital Rules. These exposures generally receive a 100% risk-weight.

VFNs—

BNY Mellon extends a limited number of VFNs to specific securitization vehicles. Typically, these exposures are subject to the SFA treatment, although they can be subject to the SSFA.

Accounting Policies

Given the lack of BNY Mellon's origination and sponsorship role related to of these securitization vehicles, these activities and their accounting policy are not disclosed in this Report, but would be disclosed separately when material in our Annual Report.

Calculation of RWA for securitization exposures

Consistent with section 939A, of the Dodd-Frank Act, the Final Capital Rules remove the Advanced Approaches risk-based capital rule's ratings-based approach ("RBA") and internal assessment approach ("IAA") for securitization exposures. Under the Final Capital Rules, the hierarchy for securitization exposures is as follows:

- Banking organizations are required to deduct from CET1 any after-tax gain-on-sale resulting from a securitization and application of a 1250% risk weight to the portion of credit-enhancing interest-only strip that does not constitute after-tax gain-on-sale. BNY Mellon currently does not have any securitization exposure that is subject to this deduction.
- For those securitization exposures not subject to capital deduction, a banking organization is required to assign a risk weight to the securitization exposure using the SFA where data to calculate the SFA is available. In view of data availability issues, BNY Mellon has adopted the SFA treatment only for its securitization exposures that are VFNs and is moving toward a wider use of the SFA over time as it develops the ability to obtain the required data.
- Banking organizations not adopting SFA are permitted to apply the SSFA under certain situations. The SSFA does not rely on credit ratings when determining the amount of risk that securitization exposures represent.
- Bank organizations may assign a risk weight of 100% to certain derivatives that have a first priority claim on cash flows from the underlying exposures of a securitization exposure under the Final Capital Rules.
- Otherwise, banking organizations must apply a 1250% risk weight to its securitization exposures.

The following table presents securitization exposures determined under the Final Capital Rules segmented by the risk weight methodology. The RWA for most securitization exposures is calculated using the SSFA. RWA for VFNs is computed using the SFA treatment. OTC derivatives that support securitization exposures receive a 100% risk weighting.

Outstanding traditional securitization exposures by exposure type at June 30, 2014

(in millions)

		Securitization exposure amount			Securitization RWA		
Risk weight method	**Exposure Category**	**On-balance**	**Off-balance**	**Total**	**On-balance**	**Off-balance**	**Total**
SSFA	RMBS	$ 6,172	$ —	$ 6,172	$ 7,384	$ —	$ 7,384
SSFA	ABS	3,230	—	3,230	1,097	—	1,097
SSFA	Commercial MBS	2,079	—	2,079	794	—	794
SSFA	CDO/CLO	1,055	—	1,055	530	—	530
SSFA	Resecuritizations	529	—	529	515	—	515
SSFA	Other	—	47	47	—	9	9
Subtotal SSFA exposures		$ 13,065	$ 47	$ 13,112	$ 10,320	$ 9	$ 10,329
SFA	VFNs	—	400	400	—	80	80
100%	OTC derivatives	—	251	251	—	251	251
1250%	Securitizations without available treatment	125	2	127	1,565	25	1,590
Total outstanding securitization exposures		**$ 13,190**	**$ 700**	**$ 13,890**	**$ 11,885**	**$ 365**	**$ 12,250**

Total amount of outstanding securitization exposures and RWA at June 30, 2014 was $13.9 billion and $12.3 billion, respectively. BNY Mellon did not have any synthetic securitization exposures as of June 30, 2014.

The following table presents securitization exposures by risk weight bands.

Securitization positions retained or purchased by risk weight bands at June 30, 2014

(in millions)

	Exposure amount			Capital requirements		
Risk weight band	**Securitization**	**Resecuritization**	**Total**	**Securitization**	**Resecuritization**	**Total**
Subject to SSFA Approach:						
< = 25%	$ 7,626	$ 136	$ 7,762	$ 123	$ 2	$ 125
>25% to < = 35%	634	13	647	15	—	15
>35% to < = 75%	1,121	238	1,359	44	10	54
>75% to < = 250%	2,053	103	2,156	292	10	302
>250% to < = 650%	1,079	39	1,118	272	18	290
>650% to < = 1250%	70	—	70	39	1	40
Total SSFA approach	$ 12,583	$ 529	$ 13,112	$ 785	$ 41	$ 826
Subject to 100% OTC, SFA or 1250% methods:						
< = 25%	400	—	400	7	—	7
>75% to < = 250%	251	—	251	20	—	20
>650% to < = 1250%	122	5	127	122	5	127
Total other methods	773	5	778	149	5	154
Total securitization positions retained or purchased	$ 13,356	$ 534	$ 13,890	$ 934	$ 46	$ 980

Total amount of outstanding securitization exposures subject to risk weighting was $13.9 billion at June 30, 2014. Capital requirements for those securitization exposures was $1.0 billion at June 30, 2014.

The following table details resecuritization positions by exposure type.

Resecuritization positions within the banking book- by exposure type	June 30, 2014
(in millions)	Exposures before/after credit mitigation and guarantees *(a)*
Structured products	$ 489
Other *(b)*	45
Total resecuritizations	**$ 534**

(a) The credit mitigation and guarantees related to resecuritization positions are not significant.
(b) Other resecuritization exposures primarily consists of non pass through MBS.

Operational Risk

In providing a comprehensive array of products and services, we may be exposed to operational/business risk. Operational/business risk may result from, but is not limited to, errors related to transaction processing, breaches of internal control systems and compliance requirements, fraud by employees or persons outside BNY Mellon or business interruption due to system failures or other events. Operational/business risk may also include breaches of our technology and information systems resulting from unauthorized access to confidential information or from internal or external threats, such as cyber attacks. Operational/business risk also includes potential legal or regulatory actions that could arise as a result of noncompliance with applicable laws and/or regulatory requirements. In the case of an operational event, we could suffer a financial loss as well as damage to our reputation.

To address these risks, we maintain comprehensive policies and procedures and an internal control framework designed to provide a sound operational environment. These controls have been designed to manage operational/business risk at appropriate levels given our financial strength, the business environment and the markets in which we operate, the nature of our businesses, and to consider factors such as competition and regulation. Our internal auditors and internal control group monitor and test the overall effectiveness of our internal controls and financial reporting systems on an ongoing basis.

We have also established procedures that are designed to ensure compliance with generally accepted conduct, ethics and business practices which are defined in our corporate policies. These include training programs such as our "Code of Conduct," and "Know Your Customer" programs, and compliance training programs such as those regarding information protection, suspicious activity reporting and operational risk.

Advanced Measurement Approach ("AMA") Methodology

BNY Mellon's AMA methodology for calculating the capital requirement for operational risk is based on a Loss Distribution Approach ("LDA"). Under the LDA approach, loss frequency distribution and loss severity distribution are separately estimated from historical loss data, and then combined using Monte Carlo simulations to generate a loss distribution. The loss distribution is used to derive the EL, unexpected loss ("UL") and capital.

BNY Mellon's LDA model uses internal and external loss data as inputs and estimates an annual loss distribution for each unit of measure, and an aggregate annual loss distribution for the corporation with a bottom-up approach. External losses, including fines and penalties levied against institutions in the financial services industry, particularly those that relate to businesses in which we operate, could impact the amount of capital that we are required to hold. The model calculates a capital without dependence assumption (i.e., without diversification benefit) and a capital with assumption

of dependence across units of measure (i.e., with diversification benefit). The dependence is modeled with a copula method using the correlations of annual losses between units of measure, with the correlations being estimated from historical internal loss data. The regulatory capital and economic capital over a one-year time horizon are the diversified capital, and are derived from the annual loss distribution with a confidence level of 99.9%. The capital includes UL and EL without any offsets to the EL.

The Credit and Operational Risk Measurement Committee ("CORMC") is responsible for reviewing and approving changes to the operational risk model. The model is run quarterly based on updated parameters. Independent validation of the model is performed annually by the Model Risk Management ("MRM") Group. The Model Validation Review Committee ("MVRC") is responsible for reviewing and approving the validation.

The majority of operational risk at BNY Mellon is in our Global Collateral Services, Financial Markets and Treasury Services, and Asset Servicing business lines.

Operational/Business Risk Management

BNY Mellon's appetite for operational risk is consistent with its desire to maintain a target long-term debt rating of no less than "A" at a 99.90% confidence interval. Our Operational Risk Appetite loss target (which is the amount of losses related to operational risk that we are willing to bear) is less than 0.60% of the line of business revenues.

We have established operational/business risk management as an independent risk discipline.

The organizational framework for operational/business risk is based upon a risk culture that incorporates both governance and risk management activities. These activities include Board oversight and governance, accountability of businesses, operation risk management, and information risk management. Each of these activities are described in more detail in the following paragraphs.

Board Oversight and Governance—

The Risk Committee of the Board of Directors ("Risk Committee") approves and oversees our operational/business risk management strategy in addition to credit and market risk. The Risk Committee meets regularly to review and approve operational/business risk management initiatives, discuss key risk issues, and review the effectiveness of the risk management systems. It is composed entirely of independent directors and meets on a regular basis to review and assesses the control processes with respect to the Company's inherent risks. It also reviews and assesses the Company's fiduciary risk policies and activities, and at least annually, reviews the effectiveness and approves the Company's risk-based capital assessment report which includes the Company's capital ratios calculated under the Final Capital Rules. Policy formulation and day-to-day oversight of the Risk Management Framework is delegated to the CRO, who, together with the Chief Auditor and the CCO, helps ensure an effective risk management governance structure.

Reporting to both the Risk Committee and the Audit Committee of the Board is the SRMC. The SRMC is responsible for evaluating emerging risks issues to ensure they are weighted against our risk appetite. The SRMC also ensures that any material amendments to the risk appetite and the risk appetite statement are properly vetted and recommended to the Executive Committee and the Board for approval. The roles and responsibilities of the SRMC are more fully detailed in the "Credit Risk: General Disclosures" section of this Report.

The Risk Committee oversees all risk management activities while the SRMC provides senior management oversight. Reporting to SRMC are four risk managing committees including the Technology and Information Risk Committee, the Operational Risk Committee, Strategic Risk Committee and the Fiduciary Risk Management Committee.

The Technology and Information Risk Committee oversees all information technology risk management activities. The Operational Risk Committee provides oversight of operational risk and executive guidance on the operational risk framework, policy design, and implementation/adherence tracking. The Strategic Risk Committee oversees the Company's strategic risk profile and monitors and manages the associated risks. The Fiduciary Risk Management Committee oversees the Company's fiduciary risk profile and monitors and manages fiduciary risk. Senior line of business operations managers (and investment officers for the Fiduciary Risk Committee), Senior Technology Managers, Business Chief Risk Officers,

and representatives from Legal, Compliance and Audit serve on these committees.

The operational risk committees, organization structure, tools and controlling policies are designed to execute the risk management framework effectively mitigating the risk of loss and damage to our reputation.

Internal Audit is an independent, objective assurance function. Internal Audit assists the Company in accomplishing its objectives by bringing a systematic, disciplined risk-based approach to evaluate and improve the effectiveness of the Company's risk management, control, and governance processes. In order to perform this function, Internal Audit will maintain a professional staff with sufficient knowledge, skills, and experience to meet the requirements of their Charter. If external experts are needed, Internal Audit will arrange co-sourcing according to company policy with concurrence of the Chief Auditor.

Accountability of Businesses—

Business managers are responsible for maintaining an effective system of internal controls commensurate with their risk profiles and in accordance with BNY Mellon policies and procedures. Co-chaired by the heads of the relevant lines of business and the Business Chief Risk Officer, the Business Risk Committee meetings are a key aspect of the operational risk management process and are designed to enhance transparency of the key risk and control issues facing the respective businesses. Designees of the Business Chief Risk Officer may serve as deputy chairs. Other meeting attendees include representatives of our Operations, Compliance, Technology, Finance, Legal and Internal Audit functions.

Operation Risk Management ("ORM Group")—

The ORM Group's responsibilities include drafting the overall policy and process framework for managing operational risk, performing analysis and coordinating the transfer of operational risk management best practices across business lines and developing and maintaining operational risk tools on a common reporting platform. The tools include a business environment and internal control factor self-assessment, key risk indicators and internal operational event data capture (losses).

The ORM Group also coordinates reporting of operational risk data to various risk committees.

The primary objectives of the ORM Group are to promote effective risk management, identify emerging risks, create incentives for generating continuous improvement in controls, and optimize capital.

The ORM function reports to the CRO and includes a Chief Operational Risk Officer, (who also manages the Corporate Operational Risk Management group) as well as Business Chief Risk Officers and their staff of Business Senior Operational Risk Managers. These individuals are independent of the business lines. The Senior Operational Risk Managers work closely with the business lines to provide support for all aspects of operational risk.

Information Risk Management ("IRM Group")—

The IRM Group is responsible for developing policies, methods and tools for identifying, assessing, measuring, monitoring and governing information and technology risk for BNY Mellon. The IRM Group partners with our lines of business to help maintain and protect the confidentiality, integrity, and availability of BNY Mellon's information and technology assets from internal and external threats such as cyber attacks.

Operational Risk Tools and Framework

We have developed several enterprise-wide tools to aid in understanding and monitoring operational risk. The tools are on a common reporting platform and have been developed for capture of internal losses and business environment self-assessments. Key Risk Indicators are also used to monitor operational effectiveness and to monitor trends in operational risk.

Reporting of Losses

Operational losses are captured in general ledger accounts that are mapped to the seven Basel III operational risk event categories. Information on operational losses that exceed $10,000 must be entered into a central database. By policy, business managers must elevate loss information within five calendar days of discovering an event where the most likely outcome based on available information is a financial impact of $50,000 or greater. Notification is

required from the business area where the event occurred. This notification is sent to senior line of business managers, the Business Chief Risk Officer, the Chief Operational Risk Officer, and for higher threshold amounts, the Chief Risk Officer, the Chief Financial Officer and General Counsel. The event information from the central database is input to the operational risk capital model along with external loss data.

Business Environment Self-Assessments

Business environment self-assessments are captured at the business unit and process levels. Business unit "High Level Assessments" are completed by the Business Chief Risk Officers or their designee for major businesses and other selected businesses.

A High Level Assessment requires assessment of inherent risk, the control environment, residual risk and the direction of risk for a series of standard risks. Commentary is required on current risks including loss experience, emerging risks, business process changes, new product development and risk management initiatives. Other information may include Key Risk Indicators data and audit and SOX findings or issues. The High Level Assessments are updated quarterly and reviewed with the Chief Operational Risk Officer, the CCO and CRO.

Risk and Control Self Assessments ("RCSAs") are completed by line of business managers to identify inherent risks associated with their key business processes. An RCSA includes a business overview, detailed risk assessments and an RCSA matrix. The RCSA matrix is a qualitative guideline to assist the risk owner when assessing inherent risk, quality of controls, residual risk and direction of risk. The lines of business RCSA owner must attest to the accuracy of the document at least annually.

Key Risk Indicators ("KRIs")

KRIs are metrics captured on a corporate risk managed database. KRIs are used to monitor essential/critical aspects of the health of business processes. Results are measured against predetermined standards or thresholds.

Operational Risk Review

Similar to the quarterly High Level Assessment discussed above, there is a monthly "Operational Loss Review." The monthly Operational Review is a form of operational risk reporting that highlights operational losses and provides commentary on trends or drivers of losses, total losses by sector and losses expressed as a percentage of revenue. To allow for comparison and to permit focus on problem areas, the report includes information across multiple time horizons. It also provides loss commentary for business lines where losses exceed tolerances and identifies individual losses in excess of $250,000 for each sector.

Client & Product Risk Oversight

The BNY Mellon Client and Product Risks Oversight provides oversight of the BNY Mellon risk framework related to governance over client relationships and products.

Business Continuity

We regularly assess and monitor operational risk in our business and provide for disaster and business recovery planning, including geographical diversification of our facilities. We are prepared for events that could damage our physical facilities, cause delay or disruptions to operational functions, including telecommunications networks, or impair our employees, clients, vendors and counterparties. Key elements of our business continuity strategies are extensive planning and testing, and diversity of business operations, data centers and telecommunications infrastructure. For a further discussion on this topic, see "Business Continuity" in the MD&A - Results of Operations section of the 2013 BNY Mellon Annual Report on Form 10K.

Use of insurance for the purpose of mitigating operational risk

BNY Mellon mitigates operational risk with a broad range of insurance policies that cover operational events. The insurance policies that BNY Mellon holds include Financial Institutions Bond, Bankers Professional Liability, Directors' and Officers' Liability, All Risk Property policies, and Enterprise Cyber / Privacy Liability. Operational loss data are provided to our Corporate Insurance Division in order to raise awareness of significant operational risk issues to ensure appropriate insurance coverage is in place or to enhance existing insurance policies. An operational risk management policy is in place that describes the process for reporting operational loss

data to the Corporate Insurance Division. Although we maintain insurance policies to mitigate operational events, insurance recoveries are not included in the loss information used in our operational risk capital model.

Equities Not Subject to Market Risk Rule

The principal functions of the securities portfolios are to generate net interest revenue or capital gains over time, to adjust the interest rate sensitivity gapping position of the Company, to support the liquidity management and funding of the Company, to satisfy deposit pledging requirements, and to meet requirements of certain agencies with which the Company does business. In recognition of these different functions, the Company's securities portfolio is divided into three portfolios: Trading securities (which are not included in "Equities Not Subject to Market Risk" since they are included in the VaR calculation for market risk), Available-for-Sale ("AFS") securities, and Held-to-Maturity ("HTM") securities.

Accounting and Valuation Methodologies

Equity securities are generally classified as either AFS or HTM securities when they are purchased. Securities are classified as AFS securities when we intend to hold the securities for an indefinite period of time or when the securities may be used for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure, prepayment risk and liquidity needs. Our investments in mutual funds and other equity securities with readily determinable fair values are reported as AFS investment securities for regulatory reporting purposes.

Other securities held for other than profit or yield enhancement purposes include securities held for merger and acquisition objectives and securities of certain government corporations held to conduct certain forms of business, including Federal Reserve Bank ("FRB") and Depository Trust Company ("DTC") stock. These investments are valued on a lower of cost or impaired value basis, depending on the nature of the investment. For example, FRB stock and DTC stock are recorded in Other Assets at the lower of cost or impaired value.

Equity securities (other than trading) are accounted for using one of four methods:

- Cost Method - The investment is recorded as other assets at acquisition cost and dividends received by the Company are recorded as noninterest income. The carrying value of the investment is written down if considered to be other-than-temporarily impaired. The cost method of accounting is used when either BNY Mellon's share in the voting stock or equity of the investee is less than 20% or it has little influence over management of the investee.
- Equity Method - The investment is initially recorded as other assets at acquisition cost and is subsequently adjusted to recognize the Company's proportionate share of the investee's earnings or losses. Distributions and dividends received from the investee are recorded as a reduction in the investment. The carrying value of the investment is written down if considered to be other-than-temporarily impaired. The equity method of accounting is used when BNY Mellon's share in the voting stock or equity of the investee is between 20% and 50%, but we are not the largest single shareholder or do not otherwise effectively control the investee and we have significant influence over operating and financial policies of the investee. This influence can be indicated in several ways, such as, representation on the investee's board of directors, participation in policy-making processes, material intercompany transactions, interchange of key managers/personnel, or technological dependency.
- Consolidation Method - The financial statements of the investee and BNY Mellon are combined line-by-line as if they were one entity, with a non-controlling ownership shown if less than 100% of the investee is owned. Certain VIEs may be required to be consolidated in accordance with Financial Accounting Standards Board ("FASB") ASC 810**,** Consolidation and FASB ASU 2009-17, Consolidation. VIEs evaluated under ASC 810 are consolidated when BNY Mellon absorbs a majority of the VIEs expected losses, receives a majority of the VIEs expected gains or both. VIEs evaluated under ASU 2009-17 are consolidated when BNY Mellon is determined to have a controlling financial interest in the VIE.
- Fair Value Method - Equities such as seed capital and venture capital investments are accounted for at fair value. Seed capital investments in funds that are non-listed, which generally include limited partnerships, limited liability or offshore/

overseas structured hedge funds and hedge fund of funds, are not within the scope of FASB ASC 320 and are recorded as Other Assets. New investment funds may require an investment of seed capital by the Company which will allow the fund to begin purchasing assets in accordance with the fund's objectives. We apply the fair value option under FASB ASC 825 to all seed capital investments. All mark-to-market gains and losses related to these investments, which are classified as other assets, are recorded as investment income. Dividend and interest income is recorded as investment income. Venture capital activities consist of investments in private equity funds, mezzanine financings, leveraged bond funds and direct equity investments. As part of its venture capital investments, the Company may enter into commitments to provide additional equity or financing. Fair value for private equity funds are generally based upon information provided by fund sponsors and our knowledge of the underlying portfolio while mezzanine financing and direct equity investments are based upon our internal models.

Purchases of AFS and HTM equities are recorded at cost, including any premium or net of any discount. AFS equities are carried at fair value with the difference between fair value and amortized cost being recognized as unrealized gain (loss) in AOCI within shareholder's equity, unless a security is Other-Than-Temporary-Impaired ("OTTI") described below. HTM equities are carried at amortized cost (i.e. not fair value), unless a security is OTTI, because it is our intent not to sell. Realized gains and losses for equities classified as either AFS or HTM securities are recorded as gains or losses.

Changes in fair value for AFS equities are recorded monthly. The fair value is the price that would be received to sell a security or paid to transfer a liability (e.g., short) between market participants on the measurement date. Quoted prices (unadjusted) in active markets for identical securities are used to the extent possible. Fair values based on modeled cash flow estimates are used in inactive markets.

An equity security is considered impaired whenever its fair value is lower than its amortized cost. In such cases, a determination must be made as to whether there is OTTI. Periodic reviews must be performed for these securities in order to determine if there is OTTI. For a cost method equity investment which is not recorded at fair value, an evaluation of whether any events or changes in circumstances have occurred that may have a significant adverse effect on the investment's fair value must be performed. If such an event has occurred, a fair value for the equity investment must be estimated. If the fair value of the investment is less than its cost, an evaluation as to whether or not the impairment is other-than-temporary must be performed.

Risk Weighting Approaches

As described below, we use three approaches to risk weight our equity exposures that are not subject to the market risk capital rules: Simple Risk Weight Approach ("SRWA"), Simple Modified Look Through Approach ("SMLT"), and Full Look Through Approach ("FLTA").

SRWA

BNY Mellon determines the RWA amount for equity exposures, except for equity exposures to investment funds, by multiplying the adjusted carrying value of the equity exposure by the lowest applicable risk weight. Under SRWA:

- Equity investments in sovereigns, certain political subdivisions, the Federal Home Loan Bank or Farmer Mac may be risk weighted below 100 percent.
- A "non-significant equity exposure", the sum of publicly and non-publicly traded equity investment that is 10 percent or less of a bank's total capital, is risk weighted at 100 percent.
- An investment in the same equity instrument that exceeds 10 percent of total capital will be risk weighted at 300 (publicly traded equities) or 400 (non-publicly traded) percent.
- Equity exposures to qualified community development investments are risk-weighted at 100 percent.
- Significant investments in unconsolidated financial institutions that are not deducted from regulatory capital are weighted at 250 percent, while investments in certain firms with securitization features are risk weighted at 600 percent.

SMLT

The SMLT approach is used to calculate the RWA amount of equity exposures to investment funds.

Under the SMLT approach, the RWA amount for this type of equity exposure is equal to the adjusted carrying value of the equity exposure multiplied by the highest risk weight that applies to any exposure within the fund allowed by the prospectus to be held.

FLTA

The FLTA is used to calculate the RWAs amount of the equity exposure to investment funds for which we are able to compute a risk-weighted asset for each of the exposures held by the investment fund. Under the Final Capital Rules, a bank is required to calculate the RWA for each of the exposures held by the investment fund as if the exposures were held directly by us based on our proportional interest. Depending on whether the exposures were wholesale, retail, securitization, or equity exposures, a bank would apply the appropriate IRB risk-based capital treatment.

The table below shows details of BNY Mellon's equity exposures.

Equity Exposures	**June 30, 2014**			
(in millions)	**EAD**	**RW %**	**RWA**	**Capital Required**
Simple Risk Weight Approach:				
Federal Reserve Bank stock	**$ 447**	**0%**	**$ —**	**$ —**
Community development	**786**	**100**	**786**	**63**
Non-significant equity treatment:				
Publicly traded	**366**	**100**	**366**	**29**
Non-publicly traded	**264**	**100**	**264**	**21**
Defined benefit pension fund assets	**683**	**100**	**683**	**55**
Significant investment in unconsolidated subs & covered funds *(a)*	**1,349**	**100**	**1,349**	**108**
Funds with greater than material leverage	**42**	**600**	**252**	**20**
Subtotal- Simple Risk Weight Approach	**3,937**		**3,700**	**296**
Simple Modified Look-through Approach:				
Money market	**143**	**20**	**28**	**2**
Funds subject to 1250% RW	**3**	**1,250**	**38**	**3**
Other	**375**	**115**	**430**	**34**
Subtotal- Simple Modified Look-through Approach	**521**		**496**	**39**
Full Look-through Approach:				
Company owned life insurance	**2,704**	**40**	**1,080**	**86**
Other	**622**	**23**	**141**	**11**
Subtotal- Full Look-through Approach	**3,326**		**1,221**	**97**
Total	**$ 7,784**		**$ 5,417**	**$ 432**

(a) Consists primarily of the Company's equity investment in Wing Hang Bank Limited ("Wing Hang"), which is located in Hong Kong. Our equity investment in Wing Hang had a fair value of $1.0 billion (book value of $542 million) based on its share price at June 30, 2014. In July 2014, we sold our equity investment in Wing Hang, which is located in Hong Kong, to Oversea-Chinese Banking Corporation Limited, resulting in an after-tax gain of approximately $320 million, or approximately $495 million pre-tax. Equity income related to our investment in Wing Hang totaled $20 million in the first half of 2014 and $95 million in full-year 2013, including $37 million from the sale of a property.

The table below outlines equity exposure gains and losses.

Equity Exposure- Gains / (Losses)	**Quarter Ended**
(in millions)	**June 30, 2014**
Realized Gains / (Losses) *(a) (b)*	$ 0.3
Unrealized Gains / (Losses) *(b) (c)*	(0.5)
Latent Gains / (Losses) *(d)*	487.0

(a) Realized gains through a sale or liquidation.
(b) Amounts are included in Tier 1 and total capital.
(c) Unrealized gains (losses) recognized through equity.
(d) Gains not recognized in the balance sheet or income statement. Latent gains / (losses) are not included in Tier 1 or Total Capital.

Net realized gains of $0.3 million for the second quarter of 2014 were primarily gains from the liquidation of a seed capital investment and two investments in trade or clearing association common stock, this was partially offset by a loss from the liquidation of two venture capital investments. Unrealized losses of $0.5 million for the quarter ended June 30, 2014 were primarily due to a decrease in the market value of an investment in a trade or clearing association and non-money market mutual funds. Latent gains of $487.0 million for the second quarter of 2014 are attributable to our equity investment in Wing Hang Bank that is accounted for by the equity method.

Interest Rate Risk for Non-Trading Activities

The Bank of New York Mellon Corporation is committed to implementing and maintaining sound practices for managing interest rate risk ("IRR"). Our interest rate risk management structure ensures that we meet and maintain this objective.

IRR is inherent in the business of banking. BNY Mellon's policy is to manage IRR exposures using processes and systems commensurate with our earnings and capital levels, complexity, business model, risk profile, and scope of operations.

The Board of Directors and its designees shall oversee risk management processes, including Policy oversight and annual approval. It will also set the overall tolerance for IRR, and delegates to the ALCO a mandate to oversee the management of these risks. It also delegates to the ALCO responsibility for devising and executing IRR strategies and policies consistent with BNY Mellon's defined risk appetite. The Corporate Treasurer is required to report to the Board of Directors or its delegated committee at least quarterly regarding BNY Mellon's IRR exposure, along with a review of any significant strategies undertaken to monitor and control such risks.

Our diversified business activities include processing securities, accepting deposits, investing in securities, lending, raising money as needed to fund assets, and other transactions. The market risks from these activities are interest rate risk and foreign exchange risk. Our primary market risk is exposure to movements in U.S. dollar interest rates and certain foreign currency interest rates. We actively manage interest rate sensitivity and use earnings simulation and discounted cash flow models to identify interest rate exposures. We use the net cash provided by client activities to hedge our structural balance sheet. Through investing in a combination of securities and money market instruments, we are able to hedge IRR exposures, maintain a store of contingent liquidity, and earn a return above funding costs.

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

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

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

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

Estimated change in net interest revenue *(dollars in millions)*		June 30, 2014
up 200 bps parallel rate ramp vs. baseline *(a)*	**$**	**426**
up 100 bps parallel rate ramp vs. baseline *(a)*		**364**
Long-term up 50 bps, short-term unchanged *(b)*		**47**
Long-term down 50 bps, short-term unchanged *(b)*		**(40)**

(a) In the parallel rate ramp, both short-term and long-term rates move in four equal quarterly increments.
(b) Long-term is equal to or greater than one year.
bps - basis points.

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

Our net interest revenue sensitivity table above incorporates assumptions about the impact of changes in interest rates on depositor behavior based on

historical experience. Given the current historically low interest rate environment, a rise in interest rates could lead to higher depositor withdrawals than historically experienced. Growth or contraction of deposits could also be affected by the following factors:

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

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

Forward-looking Statements

Additional information related to the Company is contained in the Company's reports filed with the SEC, including the Annual Report on Form 10-K for the year ended December 31, 2013 (including the Annual Report to Shareholders (the "Annual Report") included with the 10-K) (the "2013 Form 10-K"), the Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, and the Current Reports on Form 8-K (each, a "'34 Act Report"). These periodic '34 Act Reports can be viewed, as they become available, on the SEC's website at www.sec.gov and at www.bnymellon.com. Information contained in '34 Act Reports that the Company makes with the SEC subsequent to the date of the Form 10-Q for the quarter ended June 30, 2014 may modify, update and supersede the information contained in such Form 10-Q and provided in this Report.

This Report and the Company's '34 Act Reports referred to above contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which may be expressed in a variety of ways, including the use of future or present tense language, relate to, among other things: all statements about the future results of BNY Mellon, statements with respect to the expected outcome and impact of regulatory actions, the implementation of regulations and any projections or estimates of revenue, losses, default rates or recovery rates. In addition, these statements are based on the Company's current beliefs and expectations and are subject to significant risks and uncertainties that are subject to change based on various important factors (some of which are beyond the Company's control), including those factors described in our Annual Report under "Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") - Risk Factors." Actual results may differ materially from those expressed or implied as a result of a number of factors, including those discussed in the "Risk Factors" section of our Annual Report, such as government regulation and supervision, and recent legislative and regulatory actions; regulatory actions or litigation; failure to satisfy regulatory standards, including capital adequacy rules; operational risk; the failure or instability of any of our significant counterparties, and our assumption of credit and counterparty risk; and changes in accounting standards.

In this Report and the '34 Act Reports, words such as "estimate," "forecast," "project," "anticipate," "confident," "target," "expect," "intend,""seek," "believe," "plan," "goal," "could," "should," "may," "will," "strategy," "opportunities," "trends" and words of similar meaning, signify forward-looking statements.

All forward-looking statements speak only as of the date on which such statements are made, and BNY Mellon undertakes no obligation to update any statement to reflect events on circumstances after the date on which such forward-looking statement is made to reflect the occurrence or unanticipated events. The contents of BNY Mellon's website or any other websites referenced herein are not part of this Report.

Glossary

Americas—Includes locations in North and South America.

APAC—Asia-Pacific region.

ASC—Accounting Standards Codification.

ASC 810, Consolidation— Consolidation of assets and liabilities is required whenever one entity has a controlling financial interest in another entity.

Asset Liability Committee ("ALCO")—A risk-management committee in a bank or other lending institution that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure.

bps—Basis points.

Cleared transaction— An exposure associated with an outstanding derivative contract or repo-style transaction that a banking organization or clearing member has entered into with a central counterparty (that is, a transaction that a central counterparty has accepted).

Collateral haircut approach—An approach used to recognize the credit risk mitigation benefits of financial collateral that secures an eligible margin loan, repo-style transaction, collateralized derivative contract or single-product netting of such transactions. Generally a banking organization determines the exposure amount by applying standard supervisory haircuts or, with regulatory approval, its own estimates of haircuts, and multiplies the exposure amount by the risk weight associated with the counterparty or guarantor.

Collateralized loan obligation ("CLO")—A debt security backed by a pool of commercial loans.

Common Equity Tier 1 capital ("CET1")—The sum of surplus (net of treasury stock), retained earnings, accumulated other comprehensive income (loss), and CET1 minority interest subject to certain limitations, minus certain regulatory adjustments and deductions.

Counterparty risk (default risk)—The risk that a counterparty will not pay as obligated on a contract, trade or transaction.

Covered funds—Any issuer that would be an investment company as defined in the Investment Company Act of 1940 but for section 3(c)(1) or 3(c)(7) of that Act with a number of express exclusions and additions as determined by the agencies.

Credit conversion factor ("CCF")—Converts the amount of a free credit line and other off-balance-sheet transactions (with the exception of derivatives) to an EAD amount.

Credit default swaps ("CDS")—A financial contract executed under standard industry documentation that allows one party (the protection purchaser) to transfer the credit risk of one or more exposures (reference exposure(s)) to another party (the protection provider) for a certain period of time.

Credit derivatives—Contractual agreements that provide insurance against a credit event of one or more referenced credits. Such events include bankruptcy, insolvency and failure to meet payment obligations when due.

Credit-enhancing interest-only strip—An on-balance sheet asset that, in form or substance, (i) represents the contractual right to receive some or all of the interest and no more than a minimal amount of the principal due on the underlying exposure; and (ii) exposes the banking organization to credit risk directly or indirectly associated with the underlying exposures that exceeds the pro rata share of its claim on the underlying assets whether through subordination provisions or other credit enhancing techniques.

Credit exposure—The total amount of credit extended to a borrower by a lender. The magnitude of credit exposure indicates the extent to which the lender is exposed to the risk of loss in the event of the borrower's default.

Credit risk—The risk of loss due to borrower or counterparty default.

Credit risk mitigation—A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.

Credit valuation adjustment ("CVA")—The fair value adjustment to reflect counterparty credit risk in valuation of OTC derivative transactions.

Credit support annex ("CSA")—A legal document which regulates credit support (collateral) for derivative transactions. The trade is documented under a standard contract called a master agreement, developed by the ISDA. The two parties must sign the ISDA master agreement and execute a CSA before they trade derivatives with each other.

Current exposure method ("CEM")—A system used by financial institutions to measure the credit risk of losing anticipated cash flows from forwards, swaps, options and other derivatives contracts they are party to, in the event the counterparty to the contract should default. An investor's total exposure, under the current exposure method, is equal to the replacement cost of all marked to market contracts currently in the money, plus the credit exposure risk of potential changes in future prices or volatility of the underlying asset.

DBRS—Dominion Bond Rating Service.

Derivative—A contract or agreement whose value is derived from changes in interest rates, foreign exchange rates, prices of securities or commodities, credit worthiness for CDS or financial or commodity indices.

Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act")—Regulatory reform legislation signed into law on July 21, 2010. This new law broadly affects the financial services industry and contains numerous provisions aimed at strengthening the sound operation of financial services sector.

ECAI—External Credit Assessment Institution, such as Moody's Investors Service, Standard & Poor's Ratings Group or Fitch Group.

Economic capital—The amount of capital required to absorb potential losses and reflects the probability of remaining solvent over a one-year time horizon.

Eligible margin loans—An extension of credit that is collateralized exclusively by liquid and readily marketable debt or equity securities, or conforming residential mortgages. The collateral is marked-to-fair value daily, and the transaction is subject to daily margin maintenance requirements.

EMEA—Europe, the Middle East and Africa.

Expected loss ("EL")—A regulatory calculation of the amount expected to be lost on an exposure using a 12-month time horizon and downturn loss estimates. EL is calculated by multiplying the PD (a percentage) by the EAD (an amount) and LGD (a percentage).

Exposure—A claim, contingent claim or position which carries a risk of financial loss.

Exposure at default ("EAD")—The amount expected to be outstanding after any credit risk mitigation, if and when a counterparty defaults. EAD reflects drawn balances as well as the expected future draws on undrawn amounts of commitments and contingent exposures over a one-year horizon.

FASB—Financial Accounting Standards Board.

FDIC—Federal Deposit Insurance Corporation.

Foreign currency options - Similar to interest rate options except they are based on foreign exchange rates. Also, see interest rate options in this glossary.

Foreign exchange contracts—Contracts that provide for the future receipt or delivery of foreign currency at previously agreed-upon terms.

Foreign exchange potential risk ("FXPR")—An estimate of the reasonable maximum positive exposure a contract may present to the Bank over the contract's remaining life. Potential Risk depends on the size of the trade, term remaining to the settlement date, volatility of the currency, current replacement cost of the contract and the collateral agreement. The formula for a contract's potential risk consists of the replacement cost of the contract plus an "add-on" to cover future changes in market conditions. FXPR is computed based on a currency or multiple currencies versus the U.S. Dollar using the same dollar rate used for recording dollar transactions when the trade was made.

Generally Accepted Accounting Principles ("GAAP")—Accounting rules and conventions defining acceptable practices in preparing financial statements in the U.S. The FASB is the primary source of accounting rules.

Hedge fund—A fund which is allowed to use diverse strategies that are unavailable to mutual funds, including selling short, leverage, program trading, swaps, arbitrage, and derivatives.

Home equity line of credit ("HELOC")—A line of credit extended to a homeowner who uses the borrower's home as collateral.

HVCRE—High-Volatility Commercial Real Estate.

Idiosyncratic risk—The possibility that the price of an asset may decline due to an event that could specifically affect that asset but not the market as a whole.

Impairment—When an asset's market value is less than its carrying value.

Interest rate options, including caps and floors—Contracts to modify interest rate risk in exchange for the payment of a premium when the contract is initiated. As a writer of interest rate options, we receive a premium in exchange for bearing the risk of unfavorable changes in interest rates. Conversely, as a purchaser of an option, we pay a premium for the right, but not the obligation, to buy or sell a financial instrument or currency at predetermined terms in the future.

Interest rate potential risk ("IRPR")—An estimate of the reasonable maximum positive exposure a contract may present to the Bank related to the interest rate risk over the contract's remaining life. Potential risk depends on the size of the trade, term remaining to expiration or settlement date, volatility of interest rates, current replacement cost of the contract and the collateral agreements or credit put dates attached to the contract. The formula for a contract's IRPR consists of the replacement cost of the contract plus an "add-on" to cover future changes in market conditions.

Interest rate risk—Exposure of a bank's financial condition to adverse movements in interest rates.

Interest rate sensitivity—The exposure of net interest income to interest rate movements.

Interest rate swaps—Contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. Interest rate swaps are the most common type of derivative contract that we use in our asset/liability management activities.

Internal Capital Adequacy Assessment Process ("ICAAP")—The Company's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.

Internal Models Method ("IMM")—One of three approaches defined by Basel III to determine exposure values for counterparty credit risk.

Internal ratings-based ("IRB") advanced approach—A method of calculating credit risk capital requirements using internal PD, LGD and EAD models.

International foreign exchange and currency option ("IFXCO")—Master Agreement exchanged between two parties that govern foreign exchange and currency option transactions. The IFXCO is made up of two parts; the "terms" and the "adherence agreement."

Investment grade—Represents Moody's long-term rating of Baa3 or better; and/or a Standard & Poor's, Fitch or DBRS long-term rating of BBB- or better; or if unrated, an equivalent rating using our internal risk ratings. Instruments that fall below these levels are considered non-investment grade.

IPRE—Income Producing Real Estate.

ISDA—International Swaps and Derivatives Association.

ISDA master agreement—A standard agreement used in OTC derivatives transactions. The ISDA Master Agreement, published by the International Swaps and Derivatives Association (ISDA), is a document that outlines the terms applied to a derivatives transaction between two parties. Once the two parties agree to the standard terms, they do not have to renegotiate each time a new transaction is entered into.

Joint venture—A company or entity owned and operated by a group of companies for a specific business purpose, no one of which has a majority interest.

Leverage ratio (Basel I guideline)—Tier 1 capital divided by quarterly average total assets, as defined by the regulators.

Liquidity risk—The risk of being unable to fund our portfolio of assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

London interbank offered rate ("Libor")—An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market. The Libor is fixed on a daily basis by the British Bankers' Association. The Libor is derived from a filtered average of the worlds largest banks interbank deposit rates for larger loans with maturities between overnight and one full year.

Loss given default ("LGD")—The estimated percentage of the loss on an exposure to the amount outstanding at default (i.e., EAD) upon default of a counterparty.

Market risk—The potential loss in value of portfolios and financial instruments caused by movements in market variables, such as interest and foreign exchange rates, credit spreads, and equity and commodity prices.

Master netting agreement—An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract.

Monte Carlo simulation—A problem solving technique used to approximate the probability of certain outcomes by running multiple trial runs, called simulations, using random variables.

Mortgage-Backed Security ("MBS")—An asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans.

Netting—The ability of a bank to reduce its credit risk exposures, by offsetting the value of any company exposure to counterparty exposure to the same counterparty, or under ISDA Master Netting Agreement for derivative contracts.

Notice of proposed rulemaking ("NPR")—A public notice issued by law when one of the independent agencies of the United States government wishes to add, remove, or change a rule or regulation as part of the rulemaking process.

Operational risk—The risk of loss resulting from inadequate or failed processes or systems, human factors, or external events.

Organization for economic co-operation and development ("OECD")—An international economic organization of 34 countries founded in 1961 to stimulate economic progress and world trade.

Other-than-temporary impairment ("OTTI")—An impairment charge taken on a security whose fair value has fallen below the carrying value on the balance sheet and its value is not expected to recover through the holding period of the security.

Over-the-counter ("OTC") derivative—A derivative contract that is not a cleared transaction. An OTC derivative includes a transaction: (1) Between a bank that is a clearing member and a counterparty where the bank is acting as a financial intermediary and enters into a cleared transaction with a CCP that offsets the transaction with the counterparty; or (2) In which a bank that is a clearing member provides a CCP a guarantee on the performance of the counterparty to the transaction.

Potential future exposure ("PFE")—An estimate of the bank's maximum expected credit exposure over a fixed time horizon with a high level of confidence.

Probability of default ("PD")—The probability that an obligor will default within a one-year time horizon.

Qualifying revolving exposure ("QRE")—An exposure (other than a securitization exposure or equity exposure) to an individual that is managed as part of a segment of exposures with homogeneous risk characteristics, not on an individual-exposure basis, and is (1) revolving, (2) unsecured and unconditionally cancelable by the bank to the fullest extent permitted by Federal law and (3) has a maximum exposure amount (drawn plus undrawn) of up to $100,000.

Ratings based approach ("RBA")—One of three calculation methods defined under the IRB approach to securitizations. The approach uses risk weightings based on ECAI ratings, the granularity of the underlying pool and the seniority of the position.

Regulatory capital—The minimum capital that a financial institution is expected to hold against the risk it faces. This minimum is determined by the financial institutions calculations for credit, market and operational risk, plus any additional capital deemed appropriate under applicable regulatory capital rules.

Repurchase agreement ("repo")—An instrument used to raise short term funds whereby securities are sold with an agreement for the seller to buy back the securities at a later date.

Repo-style transactions—includes securities lending, securities borrowing, repurchase or reverse-repurchase transactions that are based solely on liquid securities and are marked-to-market daily.

Resecuritization—A securitization that has more than one underlying exposure and in which one or more of the underlying exposures is a securitization exposure.

Residential Mortgage-Backed Security ("RMBS")—An asset-backed security whose cash flows are backed by principal and interest payments of a set of residential mortgage loans.

Reverse repurchase agreement ("reverse repo")—A purchase of securities with an agreement to resell them at a higher price at a specific future date. This is essentially a loan of the security at a specific rate.

Risk-weighted assets ("RWAs")—Calculated by assigning a degree of risk expressed as a percentage (risk weight) to an exposure in accordance with the applicable standardized or IRB approach rules.

Securities lending transaction—A fully collateralized transaction in which the owner of a security agrees to lend the security through an agent (such as The Bank of New York Mellon) to a borrower, usually a broker/dealer or bank, on an open, overnight or term basis, under the terms of a prearranged contract, which generally matures in less than 90 days.

Securitization—Includes transactions whereby the credit risk associated with an exposure, or pool of exposures, is tranched and where payments to investors in the transaction are dependent upon the performance of the underlying exposures. A traditional securitization involves the transfer of the exposures being securitized to a special purpose entity which issues securities. In a synthetic securitization, the tranching is achieved by the use of credit derivatives and the exposures are not removed from the balance sheet of the originator.

S&P—Standard and Poor's credit-rating agency.

Simplified Supervisory Formula Approach ("SSFA")—A formula that starts with a baseline derived from the capital requirements that apply to all exposures underlying a securitization and then assigns risk weights based on the subordination level of an exposure. SSFA was designed to apply relatively higher capital requirements to the more risky junior tranches of a securitization that are the first to absorb losses, and relatively lower requirements to the most senior exposures.

Special purpose vehicle ("SPV")—A corporation, trust or other non-bank entity, established for a narrowly defined purpose, including for carrying on securitization activities. The structure of the entity and activities are intended to isolate the obligations of the SPV from those of the originator and the holders of the beneficial interests in the securitization.

Standardized Approach—In relation to credit risk, a method for calculating credit risk capital requirements using supervisory risk weights.

Subordinated debt—Debt which, in the event of insolvency or liquidation of the issuer, is subordinated to the claims of depositors and other creditors of the issuer.

Supplementary leverage ratio—An Advanced Approaches banking organization's Basel III supplementary leverage ratio is the simple arithmetic mean of the ratio of its Tier 1 capital to total leverage exposure (which is broadly defined to capture both on- and off-balance sheet exposures) calculated as of the last day of each month in the reporting quarter.

Supervisory formula approach ("SFA")—SFA is one of several approaches available to a banking organization when calculating RWAs for securitization exposures. To implement the SFA for a given securitization exposure, a banking organization must calculate several input parameters: the exposure's credit enhancement level and thickness; the exposure-weighted average loss given default for the underlying exposures to the securitization transaction; and the effective number of underlying exposures.

Total return swaps—A swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset, which includes both the income it generates and any capital gains. In total return swaps, the underlying asset, also referred to as the reference asset, is usually an equity index, loans or bonds. This is owned by the party receiving the set rate payment.

Unfunded commitments—Legally binding agreements to provide a defined level of financing until a specified future date.

Usage given default ("UGD")—The expected percent of the commitment that is likely to be drawn in the event of default.

Value-at-Risk ("VaR")—A measure of the dollar amount of potential loss at a specified confidence level from adverse market movements in an ordinary market environment.

Variable Interest Entity ("VIE")—An entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity's operations; and/or (3) has equity owners that do not have an obligation to absorb or the right to receive the entity's losses or return.

Wrong-way risk—The risk that arises when an exposure to a particular counterparty is positively correlated with the probability of default of such counterparty itself.

PILLAR 3 DISCLOSURE AS OF JUNE 30, 2014

THE BANK OF NEW YORK MELLON CORPORATION

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