Bank of New York Mellon Corp
Form 10-Q
August 08, 2016

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016

or

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

Commission File No. 001-35651

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

Delaware	13-2614959
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

225 Liberty Street
New York, New York 10286
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

Class	Outstanding as of June 30, 2016
Common Stock, $0.01 par value	1,067,674,419

THE BANK OF NEW YORK MELLON CORPORATION

Second Quarter 2016 Form 10-Q
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The Bank of New York Mellon Corporation (and its subsidiaries)

Consolidated Financial Highlights (unaudited)

(dollar amounts in millions, except per common share amounts and unless otherwise noted)	Quarter ended June 30, 2016	March 31, 2016	June 30, 2015	Year-to-date June 30, 2016	June 30, 2015
Results applicable to common shareholders of The Bank of New York Mellon Corporation:					
Net income	$825	$804	$830	$1,629	$1,596
Basic earnings per share	0.76	0.73	0.74	1.49	1.41
Diluted earnings per share	0.75	0.73	0.73	1.48	1.40
Fee and other revenue	2,999	2,970	3,067	5,969	6,079
Income (loss) from consolidated investment management funds	10	(6)	40	4	92
Net interest revenue	767	766	779	1,533	1,507
Total revenue	$3,776	$3,730	$3,886	$7,506	$7,678
Return on common equity (annualized) (a)	9.3%	9.2%	9.4%	9.2%	9.1%
Return on common equity (annualized) – Non-GAAP (a)(b)	9.7%	9.7%	10.3%	9.7%	9.8%
Return on tangible common equity (annualized) – Non-GAAP (a)	20.4%	20.6%	21.5%	20.5%	20.9%
Return on tangible common equity (annualized) – Non-GAAP adjusted (a)(b)(c)	20.5%	20.8%	22.5%	20.7%	21.4%
Return on average assets (annualized)	0.89%	0.89%	0.88%	0.89%	0.86%
Fee revenue as a percentage of total revenue	79%	80%	79%	80%	79%
Percentage of non-U.S. total revenue	34%	33%	36%	33%	36%
Pre-tax operating margin (a)	31%	29%	30%	30%	29%
Pre-tax operating margin – Non-GAAP (a)(b)	33%	31%	33%	32%	31%
Net interest margin (FTE)	0.98%	1.01%	1.00%	1.00%	0.98%
Assets under management (“AUM”) at period end (in billions) (d)	$1,664	$1,639	$1,700	$1,664	$1,700
Assets under custody and/or administration (“AUC/A”) at period end (in trillions) (e)	$29.5	$29.1	$28.6	$29.5	$28.6
Market value of securities on loan at period end (in billions) (f)	$278	$300	$283	$278	$283
Average common shares and equivalents outstanding (in thousands):					
Basic	1,072,583	1,079,641	1,113,790	1,076,112	1,116,183
Diluted	1,078,271	1,085,284	1,122,135	1,081,847	1,124,154

Selected average balances:					
Interest-earning assets	$318,433	$310,678	$318,596	$314,556	$313,379
Assets of operations	$372,974	$363,245	$375,999	$368,110	$371,068
Total assets	$374,220	$364,554	$378,279	$369,387	$373,372
Interest-bearing deposits	$165,122	$162,017	$170,716	$163,569	$165,149
Noninterest-bearing deposits	$84,033	$82,944	$84,890	$83,489	$87,228
Preferred stock	$2,552	$2,552	$2,313	$2,552	$1,940
Total The Bank of New York Mellon Corporation common shareholders' equity	$35,827	$35,252	$35,516	$35,539	$35,501
Other information at period end:					
Cash dividends per common share	$0.17	$0.17	$0.17	$0.34	$0.34
Common dividend payout ratio	23 %	23 %	23 %	23 %	24 %
Common dividend yield (annualized)	1.8 %	1.9 %	1.6 %	1.8 %	1.6 %
Closing stock price per common share	$38.85	$36.83	$41.97	$38.85	$41.97
Market capitalization	$41,479	$39,669	$46,441	$41,479	$46,441
Book value per common share – GAAP (a)	$33.72	$33.34	$32.28	$33.72	$32.28
Tangible book value per common share – Non-GAAP (a)(c)	$16.25	$15.87	$14.86	$16.25	$14.86
Full-time employees	52,200	52,100	50,700	52,200	50,700
Common shares outstanding (in thousands)	1,067,674	1,077,083	1,106,518	1,067,674	1,106,518

Consolidated Financial Highlights (unaudited) (continued)

Capital ratios	June 30, 2016		March 31, 2016		Dec. 31, 2015	
Consolidated regulatory capital ratios: (g)						
Standardized:						
Common equity Tier 1 (“CET1”) ratio	11.8	%	11.8	%	11.5	%
Tier 1 capital ratio	13.4		13.5		13.1	
Total (Tier 1 plus Tier 2) capital ratio	13.8		13.9		13.5	
Advanced:						
CET1 ratio	10.2		10.6		10.8	
Tier 1 capital ratio	11.5		12.0		12.3	
Total (Tier 1 plus Tier 2) capital ratio	11.7		12.3		12.5	
Leverage capital ratio	5.8		5.9		6.0	
Supplementary leverage ratio (“SLR”)	5.3		5.4		5.4	
BNY Mellon shareholders’ equity to total assets ratio – GAAP (a)	10.4		10.3		9.7	
BNY Mellon common shareholders’ equity to total assets ratio – GAAP (a)	9.7		9.6		9.0	
BNY Mellon tangible common shareholders’ equity to tangible assets of operations ratio – Non-GAAP (a)(c)	6.6		6.7		6.5	
Selected regulatory capital ratios – fully phased-in – Non-GAAP:						
Estimated CET1 ratio: (h)						
Standardized Approach	11.0		11.0		10.2	
Advanced Approach	9.5		9.8		9.5	
Estimated SLR (i)	5.0		5.1		4.9	

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

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

(c) Tangible book value per common share - Non-GAAP and tangible common equity exclude goodwill and intangible assets, net of deferred tax liabilities. See “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 49 for the reconciliation of Non-GAAP measures.

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

(e) Includes the AUC/A of CIBC Mellon Global Securities Services Company (“CIBC Mellon”), a joint venture with the Canadian Imperial Bank of Commerce, of $1.1 trillion at June 30, 2016, March 31, 2016 and June 30, 2015.

(f) Represents the total amount of securities on loan managed by the Investment Services business. Excludes securities for which BNY Mellon acts as an agent on behalf of CIBC Mellon clients, which totaled $56 billion at June 30, 2016 and March 31, 2016 and $68 billion at June 30, 2015.

(g) For our CET1, Tier 1 capital and Total capital ratios, our effective capital ratios under applicable capital rules are the lower of the ratios as calculated under the Standardized and Advanced Approaches. The leverage capital ratios are based on Tier I capital, as phased-in, and quarterly average total assets. For additional information on these ratios, see “Capital” beginning on page 38.

(h)

The estimated fully phased-in CET1 ratios (Non-GAAP) are based on our interpretation of U.S. capital rules, which are being gradually phased-in over a multi-year period. For additional information on these Non-GAAP ratios, see “Capital” beginning on page 38.

(i) The estimated fully phased-in SLR (Non-GAAP) is based on our interpretation of the U.S. capital rules. When the SLR becomes effective in 2018 as a required minimum ratio, we expect to maintain an SLR of over 5%. The minimum required SLR is 3% and there is a 2% buffer, in addition to the minimum, that is applicable to BNY Mellon and other U.S. global systemically important banks (“G-SIBs”). For additional information on these Non-GAAP ratios, see “Capital” beginning on page 38.

Part I - Financial Information

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

General

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

Certain business terms used in this report are defined in the Glossary included in our Annual Report on Form 10-K for the year ended Dec. 31, 2015 ("2015 Annual Report").

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

How we reported results

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

When we refer to BNY Mellon's "Basel III" capital measures (e.g., CET1), we mean those capital measures as calculated under the U.S. capital rules.

Overview

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

We manage and service assets for financial institutions, corporations and individual investors in 35 countries and more than 100 markets. As of June 30, 2016, BNY Mellon had $29.5 trillion in assets under custody and/or administration, and $1.7 trillion in assets under management.

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

BNY Mellon’s businesses benefit from the global growth in financial assets, the globalization of the investment process, changes in demographics and the continued evolution of the regulatory landscape - each providing us with opportunities to advise and service clients.

Key second quarter 2016 and subsequent events

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

In June 2016, BNY Mellon received confirmation that the Board of Governors of the Federal Reserve System (“Federal Reserve”) did not object to its 2016 capital plan submitted to the Federal Reserve in connection with its Comprehensive Capital Analysis and Review. The board of directors subsequently approved the repurchase of up to $2.14 billion worth of common stock over a four-quarter period beginning in the third quarter of 2016 and continuing through the second quarter of 2017. The board of directors also approved the additional repurchase of up to $560 million of common stock contingent on a prior issuance of $750 million of noncumulative perpetual preferred stock. This new share repurchase plan replaces all previously authorized share repurchase plans.

In conjunction with our 2016 capital plan, in August 2016, BNY Mellon issued $1 billion of noncumulative perpetual preferred stock, $750 million of which satisfied the contingency for the repurchase of up to $560 million of common stock.

Additionally, the board of directors approved a 12% increase in the quarterly cash dividend on common stock, which was also included in the 2016 capital plan, from $0.17 to $0.19 per share. This increased quarterly cash dividend will be paid on Aug. 12, 2016.

Resolution plan

In April 2016, the Federal Deposit Insurance Corporation (the "FDIC") and the Federal Reserve jointly announced determinations and provided firm-specific feedback on the 2015 resolution plans of eight systemically important domestic banking institutions, including BNY Mellon. The agencies determined that the Company's 2015 resolution plan was not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code, the statutory standard established in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and issued a joint notice of deficiencies and shortcomings regarding the Company's plan and the actions that must be taken to address them. Deficiencies must be remedied by Oct. 1, 2016, and shortcomings must be addressed in our 2017 resolution plan, which is due on July 1, 2017.

Following the receipt of feedback from the Federal Reserve and the FDIC in April 2016 on our 2015 resolution plan, we are changing our preferred resolution strategy from a bridge bank to a single point of entry in the event of our material financial distress or failure. While we are still evaluating the impact of our single point of entry strategy, it is likely that related expenses will increase and our net interest revenue may be negatively impacted if we conclude that the revised strategy requires us to issue additional long-term debt to fund holdings of high-quality liquid assets ("HQLA") for potential contribution to material subsidiaries in times of distress.

Acquisition of Atherton Lane Advisers, LLC

In April 2016, BNY Mellon completed the acquisition of the assets of Menlo Park, CA-based Atherton Lane Advisers, LLC ("Atherton"), an investment manager with approximately $2.45 billion in AUM and servicer for approximately 700 high net worth clients.

Highlights of second quarter 2016 results

We reported net income applicable to common shareholders of $825 million, or $0.75 per diluted common share, or $830 million or $0.76 per diluted common share, adjusted for M&I, litigation and restructuring charges (Non-GAAP) in the second quarter of 2016. In the second quarter of 2015, net income applicable to common shareholders was $830 million, or $0.73 per diluted common share, or $868 million, or $0.77 per diluted common share, adjusted for M&I, litigation and restructuring charges (Non-GAAP). In the first quarter of 2016, net income applicable to common shareholders was $804 million, or $0.73 per diluted common share. See "Supplemental information - Explanation of GAAP and Non-GAAP financial measures" beginning on page 49 for the reconciliation of Non-GAAP measures.

Highlights of the second quarter of 2016 include:

- AUC/A totaled $29.5 trillion at June 30, 2016 compared with $28.6 trillion at June 30, 2015. The 3% increase primarily reflects net new business and higher market values, partially offset by the unfavorable impact of a stronger

U.S. dollar. (See “Investment Services business” beginning on page 19.)

- AUM totaled $1.66 trillion at June 30, 2016 compared with $1.70 trillion at June 30, 2015. The 2% decrease primarily reflects net outflows primarily in 2015 and the unfavorable impact of a stronger U.S. dollar (principally versus the British pound), partially offset by higher market values. AUM excludes securities lending cash management assets and assets managed in the Investment Services business and the Other segment. (See “Investment Management business” beginning on page 16.)
- Investment services fees totaled $1.792 billion, a slight increase compared with $1.785 billion in the second quarter of 2015. The increase primarily reflects higher money market fees and

net new business, partially offset by lower market values. (See “Investment Services business” beginning on page 19.)

- Investment management and performance fees totaled $830 million, a decrease of 5% compared with $878 million in the second quarter of 2015. The decrease primarily reflects net outflows in 2015, the unfavorable impact of a stronger U.S. dollar and lower performance fees, partially offset by higher money market fees and the impact of the Atherton acquisition. Investment management and performance fees decreased 4% on a constant currency basis (Non-GAAP). (See “Investment Management business” beginning on page 16 and “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 49 for a reconciliation of Non-GAAP measures.)
- Foreign exchange and other trading revenue totaled $182 million compared with $187 million in the second quarter of 2015. Foreign exchange revenue totaled $166 million, a decrease of 8% compared with $181 million in the second quarter of 2015. The decrease primarily reflects lower volumes, partially offset by the positive net impact of foreign currency hedging activities. (See “Fee and other revenue” beginning on page 7.)
- Investment and other income totaled $74 million compared with $104 million in the second quarter of 2015. The decrease primarily reflects lower lease-related gains, partially offset by foreign currency remeasurement gains. (See “Fee and other revenue” beginning on page 7.)
- Net interest revenue totaled $767 million compared with $779 million in the second quarter of 2015. The decrease primarily reflects the negative impact of interest rate hedging activities and higher premium amortization adjustments related to the decrease in interest rates. Net interest margin (FTE) was 0.98% in the second quarter of 2016 compared with 1.00% in the second quarter of 2015. (See “Net interest revenue” beginning on page 10.)

- The provision for credit losses was a credit of $9 million compared with a credit of $6 million in the second quarter of 2015. (See “Asset quality and allowance for credit losses” beginning on page 29.)
- Noninterest expense totaled $2.62 billion compared with $2.73 billion in the second quarter of 2015. The decrease primarily reflects lower expenses in nearly all categories, driven by the favorable impact of a stronger U.S. dollar, lower litigation, staff and legal expenses and the benefit of the business improvement process, partially offset by higher net occupancy and distribution and servicing expenses. (See “Noninterest expense” beginning on page 13.)
- The provision for income taxes was $290 million and the effective rate was 24.9%. (See “Income taxes” on page 14.)
- The net unrealized pre-tax gain on the investment securities portfolio was $1.6 billion at June 30, 2016 compared with $1.2 billion at March 31, 2016. The increase was primarily driven by a decline in market interest rates. (See “Investment securities” beginning on page 25.)
- Our CET1 ratio was 10.2% at June 30, 2016 and 10.6% at March 31, 2016 under the Advanced Approach. The decrease primarily reflects higher risk-weighted assets, partially offset by an increase in capital. Our CET1 ratio was 11.8% at both June 30, 2016 and March 31, 2016 under the Standardized Approach. (See “Capital” beginning on page 38.)
- Our estimated CET1 ratio (Non-GAAP) calculated under the Advanced Approach on a fully phased-in basis was 9.5% at June 30, 2016 and 9.8% at March 31, 2016. The decrease primarily reflects higher risk-weighted assets, partially offset by an increase in capital. Our estimated CET1 ratio (Non-GAAP) calculated under the Standardized Approach on a fully phased-in basis was 11.0% at both June 30, 2016 and March 31, 2016. (See “Capital” beginning on page 38.)

Fee and other revenue

Fee and other revenue				2Q16 vs.		Year-to-date		YTD16 vs.
(dollars in millions, unless otherwise noted)	2Q16	1Q16	2Q15	1Q16	2Q15	2016	2015	YTD15
Investment services fees:								
Asset servicing (a)	$1,069	$1,040	$1,060	3 %	1 %	$2,109	$2,098	1 %
Clearing services	350	350	347	—	1	700	691	1
Issuer services	234	244	234	(4)	—	478	466	3
Treasury services	139	131	144	6	(3)	270	281	(4)
Total investment services fees	1,792	1,765	1,785	2	—	3,557	3,536	1
Investment management and performance fees	830	812	878	2	(5)	1,642	1,745	(6)
Foreign exchange and other trading revenue	182	175	187	4	(3)	357	416	(14)
Financing-related fees	57	54	58	6	(2)	111	98	13
Distribution and servicing	43	39	39	10	10	82	80	3
Investment and other income	74	105	104	(30)	(29)	179	164	9
Total fee revenue	2,978	2,950	3,051	1	(2)	5,928	6,039	(2)
Net securities gains	21	20	16	N/M	N/M	41	40	3
Total fee and other revenue	$2,999	$2,970	$3,067	1 %	(2)%	$5,969	$6,079	(2)%
Fee revenue as a percentage of total revenue	79 %	80 %	79 %			80 %	79 %	
AUM at period end (in billions) (b)	$1,664	$1,639	$1,700	2 %	(2)%	$1,664	$1,700	(2)%
AUC/A at period end (in trillions) (c)	$29.5	$29.1	$28.6	1 %	3 %	$29.5	$28.6	3 %

(a) Asset servicing fees include securities lending revenue of $52 million in the second quarter of 2016, $50 million in the first quarter of 2016, $49 million in the second quarter of 2015, $102 million in the first six months of 2016 and $92 million in the first six months of 2015.

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

(c) Includes the AUC/A of CIBC Mellon of $1.1 trillion at June 30, 2016, March 31, 2016 and June 30, 2015.

N/M - Not meaningful.

Fee and other revenue decreased 2% compared with the second quarter of 2015 and increased 1% (unannualized) compared with the first quarter of 2016. The year-over-year decrease primarily reflects lower investment management and performance fees and investment and other income, partially offset by higher investment services fees and net securities gains. The sequential increase primarily reflects higher investment services fees, investment management and performances fees and foreign exchange and other trading revenue, partially offset by lower investment and other income.

Investment services fees

Investment services fees were impacted by the following compared with the second quarter of 2015 and the first quarter of 2016:

- Asset servicing fees increased 1% compared with the second quarter of 2015 and 3% (unannualized) compared with the first quarter of 2016. The year-over-year increase primarily reflects net new business and higher money market fees, partially offset by lower market values and the unfavorable impact of a stronger U.S. dollar. The sequential increase primarily reflects higher market values and net new business.

- Clearing services fees increased 1% compared with the second quarter of 2015 and was unchanged (unannualized) compared with the first quarter of 2016. The year-over-year increase was primarily driven by higher money market fees, partially offset by the impact of lost business. Sequentially, higher average balances and the increase in the number of trading days were offset by lower volumes.
- Issuer services fees were unchanged compared with the second quarter of 2015 and decreased 4% (unannualized) compared with the first quarter of 2016. Both comparisons reflect lower Depositary Receipts revenue. Year-over-year, issuer services fees also reflect higher money market fees in Corporate Trust.
- Treasury services fees decreased 3% compared with the second quarter of 2015 and increased 6% (unannualized) compared with the first quarter of

2016. The year-over-year decrease primarily reflects higher compensating balance credits provided to clients, which shifts revenue from fees to net interest revenue. The sequential increase primarily reflects higher payment volumes due to an increase in the number of trading days.

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

Investment management and performance fees

Investment management and performance fees totaled $830 million in the second quarter of 2016, a decrease of 5% compared with the second quarter of 2015 and an increase of 2% (unannualized) compared with the first quarter of 2016. The year-over-year decrease primarily reflects outflows in 2015, the unfavorable impact of a stronger U.S. dollar, lower performance fees and the July 2015 sale of Meriten Investment Management GmbH (“Meriten”), partially offset by higher money market fees and the impact of the Atherton acquisition. On a constant currency basis (Non-GAAP), investment management and performance fees decreased 4% year-over-year. The sequential increase primarily reflects higher equity market values and the impact of the Atherton acquisition, partially offset by net outflows. Performance fees were $9 million in the second quarter of 2016, $20 million in the second quarter of 2015 and $11 million in the first quarter of 2016.

Total AUM for the Investment Management business was $1.7 trillion at June 30, 2016, a decrease of 2% year-over-year and an increase of 2% sequentially. The year-over-year decrease primarily reflects net outflows primarily in 2015 and the unfavorable impact of a stronger U.S. dollar (principally versus the British pound), partially offset by higher market values. Net long-term outflows in the second quarter of 2016 totaled $5 billion driven by index investments, partially offset by the continued strength in liability-driven investments. Net short-term inflows totaled $4 billion in the second quarter of 2016.

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

Foreign exchange and other trading revenue

Foreign exchange and other trading revenue

				Year-to-date	
(in millions)	2Q16	1Q16	2Q15	2016	2015
Foreign exchange	$ 166	$ 171	$ 181	$ 337	$ 398
Other trading revenue	16	4	6	20	18
Total foreign exchange and other trading revenue	$ 182	$ 175	$ 187	$ 357	$ 416

Foreign exchange and other trading revenue totaled $182 million in the second quarter of 2016, $187 million in the second quarter of 2015 and $175 million in the first quarter of 2016.

Foreign exchange trading revenue is primarily driven by the volume of client transactions and the spread realized on these transactions, both of which are impacted by market volatility. In the second quarter of 2016, foreign exchange revenue totaled $166 million, a decrease of 8% compared with the second quarter of 2015 and 3% (unannualized) compared with the first quarter of 2016. The year-over-year decrease primarily reflects lower volumes, partially offset by the positive net impact of foreign currency hedging activities. The sequential decrease primarily reflects the continued trend of clients migrating to lower margin products. Foreign exchange revenue is reported in the Investment Services business and the Other segment.

Custody clients generally enter into foreign exchange transactions in one of three ways: negotiated trading with BNY Mellon, a BNY Mellon standing instruction program, or transactions with third-party foreign exchange providers. A shift by custody clients from our standing instruction programs to other trading options combined with competitive market pressures on the foreign exchange business is negatively impacting our foreign exchange revenue. For the quarter ended June 30, 2016, total revenue for all types of foreign exchange trading transactions was approximately 4% of our total revenue, and approximately 32% of our foreign exchange revenue was generated by transactions in our standing instruction programs.

Total other trading revenue was $16 million in the second quarter of 2016, compared with $6 million in the second quarter of 2015 and $4 million in the first quarter of 2016. The year-over-year increase primarily reflects higher fixed income trading. Year-over-year, losses on hedging activities in the

Investment Management businesses were offset by the positive impact of interest rate hedging. The sequential increase primarily reflects hedging activities in the Investment Management businesses. Other trading revenue is reported in all three business segments.

Financing-related fees

Financing-related fees, which are primarily reported in the Investment Services business and the Other segment, include capital markets fees, loan commitment fees and credit-related fees. Financing-related fees totaled $57 million in the second quarter of 2016, $58 million in the second quarter of 2015 and $54 million in the first quarter of 2016.

Distribution and servicing fees

Distribution and servicing fee revenue was $43 million in the second quarter of 2016 and $39 million in both the second quarter of 2015 and first quarter of 2016. Distribution and servicing fees were favorably impacted by higher money market fees. The year-over-year increase was partially offset by fees paid to introducing brokers.

Investment and other income

Investment and other income

				Year-to-date	
(in millions)	2Q16	1Q16	2Q15	2016	2015
Corporate/bank-owned life insurance	$31	$31	$31	$62	$64
Lease-related gains	—	44	54	44	53
Expense reimbursements from joint venture	17	17	17	34	31
Seed capital gains (a)	11	11	2	22	18
Asset-related gains	1	—	1	1	4
Equity investment (losses)	(4)	(3)	(7)	(7)	(11)
Other income	18	5	6	23	5
Total investment and other income	$74	$105	$104	$179	$164

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

Investment and other income includes corporate and bank-owned life insurance contracts, lease-related gains, expense reimbursements from our CIBC Mellon joint venture, seed capital gains, asset-related gains, equity investment losses and other income. Expense reimbursements from our CIBC Mellon joint venture relate to expenses incurred by BNY Mellon

on behalf of the CIBC Mellon joint venture. Asset-related gains include real estate, loans and other asset dispositions. Other income primarily includes foreign currency remeasurement gain (loss), other investments and various miscellaneous revenues. Investment and other income was $74 million in the second quarter of 2016 compared with $104 million in the second quarter of 2015 and $105 million in the first quarter of 2016. Both decreases primarily reflect lower lease-related gains, partially offset by foreign currency remeasurement gains.

Year-to-date 2016 compared with year-to-date 2015

Fee and other revenue for the first six months of 2016 totaled $6.0 billion compared with $6.1 billion in the first six months of 2015. The decrease primarily reflects lower investment management and performance fees and lower foreign exchange and other trading revenue, partially offset by higher investment and other income, financing-related fees, issuer services fees and asset servicing fees. The decrease in investment management and performance fees primarily reflects outflows in 2015, the unfavorable impact of a stronger U.S. dollar, the July 2015 sale of Meriten, lower market values and lower performance fees, partially offset by higher money market fees. The decrease in foreign exchange and other trading revenue primarily reflects lower volumes and the continued trend of clients migrating to lower margin products, partially offset by higher volatility. The increase in investment and other income primarily reflects foreign currency remeasurement gains, partially offset by lower lease-related gains. The increase in financing-related fees primarily reflects higher fees related to secured intraday credit. The increase in issuer services fees primarily reflects higher money market fees in Corporate Trust, partially offset by lower Depositary Receipts revenue. The increase in asset servicing fees primarily reflects net new business, higher money market fees and higher securities lending revenue, partially offset by lower market values.

Net interest revenue

Net interest revenue								YTD16
				2Q16 vs.		Year-to-date		vs.
(dollars in millions)	2Q16	1Q16	2Q15	1Q16	2Q15	2016	2015	YTD15
Net interest revenue (non-FTE)	$767	$766	$779	—	(2)%	$1,533	$1,507	2%
Tax equivalent adjustment	13	14	15	(7)	(13)	27	30	(10)
Net interest revenue (FTE)	$780	$780	$794	—	(2)%	$1,560	$1,537	1%
Average interest-earning assets	$318,433	$310,678	$318,596	2%	—	$314,556	$313,379	—
Net interest margin (FTE)	0.98 %	1.01 %	1.00 %	(3) bps	(2) bps	1.00 %	0.98 %	2 bps

FTE - fully taxable equivalent.
bps - basis points.

Net interest revenue totaled $767 million in the second quarter of 2016, a decrease of $12 million compared with the second quarter of 2015 and an increase of $1 million compared with the first quarter of 2016. The year-over-year decrease primarily reflects the negative impact of interest rate hedging activities and higher premium amortization adjustments related to the decrease in interest rates. The sequential increase primarily reflects lower losses on interest rate hedging activities, partially offset by higher premium amortization.

The net interest margin (FTE) was 0.98% in the second quarter of 2016 compared with 1.00% in the second quarter of 2015 and 1.01% in the first quarter of 2016. The year-over-year decrease primarily reflects the factors noted above. The sequential decrease primarily reflects higher average interest-earning assets.

Average non-U.S. dollar deposits comprised approximately 20% of our average total deposits in the second quarter of 2016. Approximately 40% of the average non-U.S dollar deposits were euro-denominated in the second quarter of 2016.

Following the receipt of feedback from the Federal Reserve and the FDIC in April 2016 on our 2015 resolution plan, we are changing our preferred resolution strategy from a bridge bank to a single point of entry in the event of our material financial distress or failure. While we are still evaluating the impact of our single point of entry strategy, it is likely that our net interest revenue may be negatively impacted if we conclude that the revised strategy requires us to issue additional long-term debt to fund holdings of HQLA for potential contribution to material subsidiaries in times of distress.

Year-to-date 2016 compared with year-to-date 2015

Net interest revenue totaled $1.5 billion in the first six months of 2016, an increase of $26 million compared with the first six months of 2015. The increase primarily resulted from higher yields on interest-earning assets, partially offset by the negative impact of interest rate hedging activities. The net interest margin (FTE) was 1.00% in the first six months of 2016, compared with 0.98% in the first six months of 2015. The increase in the net interest margin (FTE) primarily reflects the factors noted above.

Average balances and interest rates	Quarter ended								
	June 30, 2016			March 31, 2016			June 30, 2015		
(dollar amounts in millions, presented on an FTE basis)	Average balance	Average rates		Average balance	Average rates		Average balance	Average rates	
Assets									
Interest-earning assets:									
Interest-bearing deposits with banks (primarily foreign banks)	$14,394	0.68	%	$14,909	0.69	%	$20,235	0.56	%
Interest-bearing deposits held at the Federal Reserve and other central banks	97,788	0.30		89,092	0.28		81,846	0.21	
Federal funds sold and securities purchased under resale agreements	25,813	0.87		23,623	0.84		23,545	0.61	
Margin loans	18,226	1.40		18,907	1.34		20,467	1.01	
Non-margin loans:									
Domestic offices	29,413	2.25		28,506	2.21		26,716	2.06	
Foreign offices	12,645	1.57		13,783	1.39		13,893	1.19	
Total non-margin loans	42,058	2.04		42,289	1.95		40,609	1.77	
Securities:									
U.S. Government obligations	24,571	1.50		24,479	1.50		28,331	1.42	
U.S. Government agency obligations	56,050	1.68		55,966	1.79		56,332	1.77	
State and political subdivisions – tax-exempt	3,778	2.90		3,979	2.89		5,021	2.67	
Other securities	33,603	1.24		34,114	1.22		38,957	1.24	
Trading securities	2,152	2.45		3,320	2.16		3,253	2.63	
Total securities	120,154	1.57		121,858	1.62		131,894	1.59	
Total interest-earning assets	$318,433	1.14	%	$310,678	1.16	%	$318,596	1.08	%
Allowance for loan losses	(163	)		(157	)		(190	)	
Cash and due from banks	4,141			3,879			6,785		
Other assets	50,563			48,845			50,808		
Assets of consolidated investment management funds	1,246			1,309			2,280		
Total assets	$374,220			$364,554			$378,279		
Liabilities									
Interest-bearing liabilities:									
Interest-bearing deposits:									
Money market rate accounts	$7,280	0.06	%	$7,385	0.06	%	$7,213	0.09	%
Savings	1,175	0.39		1,235	0.27		1,326	0.27	
Demand deposits	1,790	0.40		864	0.50		3,109	0.20	
Time deposits	46,629	0.06		42,678	0.04		46,807	0.03	
Foreign offices	108,248	0.01		109,855	0.03		112,261	—	
Total interest-bearing deposits	165,122	0.03		162,017	0.04		170,716	0.02	
Federal funds purchased and securities sold under repurchase agreements	18,204	0.28		18,689	0.20		16,732	(0.02	)
Trading liabilities	662	0.66		551	1.43		632	1.84	
Other borrowed funds	847	0.97		759	0.97		903	1.26	
Commercial paper	3,781	0.37		22	0.33		2,892	0.10	
Payables to customers and broker-dealers	16,935	0.05		16,801	0.09		11,234	0.07	
Long-term debt	22,838	1.54		21,556	1.57		20,625	0.99	
Total interest-bearing liabilities	$228,389	0.21	%	$220,395	0.21	%	$223,734	0.12	%
Total noninterest-bearing deposits	84,033			82,944			84,890		
Other liabilities	22,345			22,300			29,840		

Liabilities and obligations of consolidated investment management funds	253	259	857
Total liabilities	335,020	325,898	339,321
Temporary equity			
Redeemable noncontrolling interests	181	190	235
Permanent equity			
Total BNY Mellon shareholders' equity	38,379	37,804	37,829
Noncontrolling interests	640	662	894
Total permanent equity	39,019	38,466	38,723
Total liabilities, temporary equity and permanent equity	$374,220	$364,554	$378,279
Net interest margin (FTE)	0.98 %	1.01 %	1.00 %

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

Average balances and interest rates	Year-to-date			
	June 30, 2016		June 30, 2015	
(dollar amounts in millions, presented on an FTE basis)	Average balance	Average rates	Average balance	Average rates
Assets				
Interest-earning assets:				
Interest-bearing deposits with banks (primarily foreign banks)	$14,651	0.68 %	$21,148	0.56 %
Interest-bearing deposits held at the Federal Reserve and other central banks	93,440	0.29	81,505	0.22
Federal funds sold and securities purchased under resale agreements	24,718	0.85	21,989	0.60
Margin loans	18,566	1.37	20,260	1.01
Non-margin loans:				
Domestic offices	28,960	2.23	25,990	2.10
Foreign offices	13,214	1.48	13,265	1.21
Total non-margin loans	42,174	2.00	39,255	1.80
Securities:				
U.S. Government obligations	24,526	1.50	27,894	1.40
U.S. Government agency obligations	56,008	1.74	54,548	1.73
State and political subdivisions – tax-exempt	3,879	2.89	5,116	2.65
Other securities	33,858	1.23	38,514	1.28
Trading securities	2,736	2.28	3,150	2.55
Total securities	121,007	1.60	129,222	1.58
Total interest-earning assets	$314,556	1.15 %	$313,379	1.08 %
Allowance for loan losses	(160)		(191)	
Cash and due from banks	4,010		6,496	
Other assets	49,704		51,384	
Assets of consolidated investment management funds	1,277		2,304	
Total assets	$369,387		$373,372	
Liabilities				
Interest-bearing liabilities:				
Interest-bearing deposits:				
Money market rate accounts	$7,332	0.06 %	$7,017	0.09 %
Savings	1,205	0.33	1,377	0.29
Demand deposits	1,327	0.43	3,155	0.20
Time deposits	44,653	0.05	45,044	0.03
Foreign offices	109,052	0.02	108,556	0.01
Total interest-bearing deposits	163,569	0.03	165,149	0.03
Federal funds purchased and securities sold under repurchase agreements	18,446	0.24	15,312	(0.05)
Trading liabilities	606	1.01	713	1.41
Other borrowed funds	803	0.97	949	1.10
Commercial paper	1,902	0.37	2,007	0.10
Payables to customers and broker-dealers	16,868	0.07	11,084	0.07
Long-term debt	22,197	1.56	20,414	1.10
Total interest-bearing liabilities	$224,391	0.21 %	$215,628	0.14 %
Total noninterest-bearing deposits	83,489		87,228	
Other liabilities	22,323		31,082	
Liabilities and obligations of consolidated investment management funds	256		930	

Total liabilities	330,459	334,868
Temporary equity		
Redeemable noncontrolling interests	186	234
Permanent equity		
Total BNY Mellon shareholders' equity	38,091	37,441
Noncontrolling interests	651	829
Total permanent equity	38,742	38,270
Total liabilities, temporary equity and permanent equity	$369,387	$373,372
Net interest margin (FTE)	1.00 %	0.98 %

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

Noninterest expense

Noninterest expense				2Q16 vs.		Year-to-date		YTD16 vs.
(dollars in millions)	2Q16	1Q16	2Q15	1Q16	2Q15	2016	2015	YTD15
Staff	$1,412	$1,459	$1,434	(3)%	(2)%	$2,871	$2,919	(2)%
Professional, legal and other purchased services	290	278	299	4	(3)	568	601	(5)
Software	160	154	158	4	1	314	316	(1)
Net occupancy	152	142	149	7	2	294	300	(2)
Distribution and servicing	102	100	96	2	6	202	194	4
Sub-custodian	70	59	75	19	(7)	129	145	(11)
Furniture and equipment	63	65	70	(3)	(10)	128	140	(9)
Business development	65	57	72	14	(10)	122	133	(8)
Other	240	241	250	—	(4)	481	492	(2)
Amortization of intangible assets	59	57	65	4	(9)	116	131	(11)
M&I, litigation and restructuring charges	7	17	59	N/M	N/M	24	56	N/M
Total noninterest expense – GAAP	$2,620	$2,629	$2,727	—%	(4)%	$5,249	$5,427	(3)%
Total staff expense as a percentage of total revenue	37%	39%	37%			38%	38%	
Full-time employees at period end	52,200	52,100	50,700	—	3%	52,200	50,700	3%
Memo:								
Total noninterest expense excluding amortization of intangible assets and M&I, litigation and restructuring charges – Non-GAAP	$2,554	$2,555	$2,603	—%	(2)%	$5,109	$5,240	(3)%

N/M - Not meaningful.

Total noninterest expense decreased 4% compared with the second quarter of 2015 and decreased slightly compared with the first quarter of 2016. Excluding amortization of intangible assets and M&I, litigation and restructuring charges, noninterest expense (Non-GAAP) decreased 2% compared with the second quarter of 2015 and was flat compared with the first quarter of 2016. The year-over-year decrease reflects lower expenses in nearly all categories, primarily driven by the favorable impact of a stronger U.S. dollar, lower litigation, staff and legal expenses and the benefit of the business improvement process, partially offset by higher net occupancy and distribution and servicing expenses. The sequential decrease primarily reflects lower staff expense, offset by higher sub-custodian, net occupancy, legal and business development expenses.

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

Staff expense

Given our mix of fee-based businesses, which are staffed with high-quality professionals, staff expense comprised 54% of total noninterest expense in the second quarter of 2016, 53% in the second quarter of 2015 and 55% in the first quarter of 2016.

Staff expense decreased 2% compared with the second quarter of 2015 and 3% (unannualized) compared with the first quarter of 2016. The decrease compared with the second quarter of 2015 primarily reflects lower incentives and the favorable impact of a stronger U.S. dollar. The decrease compared with the first quarter of 2016 was primarily driven by the impact of vesting of long-term stock awards for retirement eligible employees recorded in the first quarter of 2016.

Non-staff expense

Non-staff expense includes certain expenses that vary with the levels of business activity and levels of expensed business investments, fixed infrastructure costs and expenses associated with corporate activities related to technology, compliance, legal, productivity initiatives and business development.

Non-staff expense totaled $1.2 billion in the second quarter of 2016, a decrease of 7% compared with the second quarter of 2015 and an increase of 3% (unannualized) compared with the first quarter of 2016. The decrease primarily reflects lower litigation expense. Non-staff expense, excluding amortization of intangible assets and M&I, litigation and restructuring charges (Non-GAAP), totaled $1.1 billion in the second quarter of 2016, a decrease of 2% compared with the second quarter of 2015 and an increase of 4% (unannualized) compared with the first quarter of 2016. The year-over-year decrease primarily reflects lower legal expense and the benefit of the business improvement process, partially offset by higher distribution and servicing expense. The savings generated by the business improvement process primarily reflect the benefits of our technology insourcing strategy and the benefit of renegotiating vendor contacts. The sequential increase primarily reflects higher sub-custodian, net occupancy, legal and business development expenses. The increase in sub-custodian expenses primarily reflect higher client activity. The increase in net occupancy expense reflects the cost to exit leased space consistent with our global real estate strategy. The increase in business development expense was driven by the timing of client-related conferences.

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

Year-to-date 2016 compared with year-to-date 2015

Noninterest expense totaled $5.2 billion in the first six months of 2016, a decrease of $178 million, or 3%, compared with $5.4 billion in the first six months of 2015. The decrease primarily reflects lower expenses in nearly all categories, except distribution and servicing expense. The lower expenses primarily reflect the favorable impact of a stronger U.S. dollar, lower estimated 2016 incentives, litigation and legal expenses and the benefit of the business improvement process. The savings generated by the business improvement process primarily reflect the benefits of our technology insourcing strategy and the benefit of renegotiating vendor contacts.

Income taxes

BNY Mellon recorded an income tax provision of $290 million (24.9% effective tax rate) in the second quarter of 2016. The income tax provision was $276 million (23.7% effective tax rate) in the second quarter of 2015 and $283 million (25.9% effective tax rate) in the first quarter of 2016. The effective tax rates primarily reflect tax benefits from foreign operations, tax-exempt income and tax credits for all periods presented. The effective tax rate in the

second quarter of 2015 also reflects the impact of litigation expense.

We expect the effective tax rate to be approximately 25-26% in 2016.

Review of businesses

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

Business accounting principles

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

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

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

Beginning in the first quarter of 2016, we revised the net interest revenue for our business to reflect adjustments to our transfer pricing methodology to better reflect the value of certain deposits. Also beginning in the first quarter of 2016, we refined the expense allocation process for indirect expenses to simplify the expenses recorded in the Other segment to include only expenses not directly attributable to the Investment Management and Investment Services operations. These changes did not impact the consolidated results.

The results of our businesses may be influenced by client and other activities that vary by quarter. In the first quarter, incentive expense typically increases reflecting the vesting of long-term stock awards for retirement eligible employees. In the third quarter, Depositary Receipts revenue is typically higher due to an increased level of client dividend payments paid in the quarter. Also in the third quarter, volume-related fees may decline due to reduced client activity. In the fourth quarter, we typically incur higher business development and marketing expenses. In our Investment Management business, performance fees are typically higher in the fourth quarter, as the fourth quarter represents the end of the measurement period for many of the performance fee-eligible relationships.

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

British pound, euro and the Indian rupee. On a consolidated basis and in our Investment Services business, we typically have more foreign currency denominated expenses than revenues. However, our Investment Management business typically has more foreign currency denominated revenues than expenses. Overall, currency fluctuations impact the year-over-year growth rate in the Investment Management business more than the Investment Services business. However, currency fluctuations, in isolation, are not expected to significantly impact net income on a consolidated basis.

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

Key market metrics						2Q16 vs.		Year-to-date		YTD16 vs.
	2Q16	1Q16	4Q15	3Q15	2Q15	1Q16	2Q15	2016	2015	YTD15
S&P 500 Index (a)	2099	2060	2044	1920	2063	2 %	2 %	2099	2063	2 %
S&P 500 Index – daily average	2075	1951	2052	2027	2102	6	(1)	2015	2083	(3)
FTSE 100 Index (a)	6504	6175	6242	6062	6521	5	—	6504	6521	—
FTSE 100 Index – daily average	6204	5988	6271	6399	6920	4	(10)	6097	6855	(11)
MSCI World Index (a)	1653	1648	1663	1582	1736	—	(5)	1653	1736	(5)
MSCI World Index – daily average	1656	1568	1677	1691	1780	6	(7)	1613	1754	(8)
Barclays Capital Global Aggregate Bond^{SM} Index (a)(b)	382	368	342	346	342	4	12	382	342	12
NYSE and NASDAQ share volume (in billions)	203	218	198	206	185	(7)	10	422	372	13
JPMorgan G7 Volatility Index – daily average (c)	11.12	10.60	9.49	9.93	10.06	5	11	10.86	10.23	6
Average Fed Funds effective rate	0.37 %	0.36 %	0.16 %	0.13 %	0.13 %	1 bps	24 bps	0.36 %	0.12 %	24 bps
Foreign exchange rates vs. U.S. dollar:										
British pound (a)	$1.34	$1.44	$1.48	$1.52	$1.57	(7)%	(15)%	$1.34	$1.57	(15) %
British pound – average rate	1.43	1.43	1.52	1.55	1.53	—	(7)	1.43	1.52	(6)
Euro (a)	1.11	1.14	1.09	1.12	1.11	(3)	—	1.11	1.11	—
Euro – average rate	1.13	1.10	1.10	1.11	1.11	3	2	1.12	1.12	—

(a) Period end.
(b) Unhedged in U.S. dollar terms.
(c) The JPMorgan G7 Volatility Index is based on the implied volatility in 3-month currency options.
bps - basis points.

Fee revenue in Investment Management, and to a lesser extent in Investment Services, is impacted by the value of market indices. At June 30, 2016, we estimate that a 5% change in global equity markets, spread evenly throughout the year, would impact fee revenue by less than 1% and diluted earnings per common share by $0.02 to $0.04.

Fee waivers are highly sensitive to changes in the Fed Funds effective rate. Assuming no change in client behavior, we expect to recover approximately 70% of the pre-tax income related to fee waivers with a 50 basis point increase in the Fed Funds effective rate, inclusive of the 25 basis point increase in December 2015.

See Note 18 of the Notes to Consolidated Financial Statements for the consolidating schedules which show the contribution of our businesses to our overall profitability.

Investment Management business

(dollar amounts in millions)	2Q16	1Q16	4Q15	3Q15	2Q15	2Q16 vs. 1Q16	2Q16 vs. 2Q15	Year-to-date 2016	Year-to-date 2015	YTD16 vs. YTD15
Revenue:										
Investment management fees:										
Mutual funds	$304	$300	$294	$301	$312	1 %	(3)%	$604	$613	(1)%
Institutional clients	344	334	350	347	363	3	(5)	678	728	(7)
Wealth management	160	152	155	156	160	5	—	312	319	(2)
Investment management fees (a)	808	786	799	804	835	3	(3)	1,594	1,660	(4)
Performance fees	9	11	55	7	20	N/M	(55)	20	35	(43)
Investment management and performance fees	817	797	854	811	855	3	(4)	1,614	1,695	(5)
Distribution and servicing	49	46	39	37	38	7	29	95	76	25
Other (a)	(10)	(31)	22	(5)	17	N/M	N/M	(41)	58	N/M
Total fee and other revenue (a)	856	812	915	843	910	5	(6)	1,668	1,829	(9)
Net interest revenue	82	83	84	83	77	(1)	6	165	152	9
Total revenue	938	895	999	926	987	5	(5)	1,833	1,981	(7)
Provision for credit losses	1	(1)	(4)	1	3	N/M	N/M	—	2	N/M
Noninterest expense (ex. amortization of intangible assets)	684	660	689	665	700	4	(2)	1,344	1,408	(5)
Income before taxes (ex. amortization of intangible assets)	253	236	314	260	284	7	(11)	489	571	(14)
Amortization of intangible assets	19	19	24	24	25	—	(24)	38	49	(22)
Income before taxes	$234	$217	$290	$236	$259	8 %	(10)%	$451	$522	(14)%

Pre-tax operating margin	25 %	24 %	29 %	25 %	26 %			25 %	26 %	
Adjusted pre-tax operating margin – Non-GAAP (b)	31 %	30 %	36 %	34 %	34 %			31 %	34 %	
Average balances:										
Average loans	$14,795	$14,275	$13,447	$12,779	$12,298	4 %	20 %	$14,535	$11,968	21 %
Average deposits	$15,518	$15,971	$15,497	$15,282	$14,638	(3)%	6 %	$15,745	$14,926	5 %

(a) Total fee and other revenue includes the impact of the consolidated investment management funds, net of noncontrolling interests. See page 53 for a breakdown of the revenue line items in the Investment Management business impacted by the consolidated investment management funds. Additionally, other revenue includes asset servicing, treasury services, foreign exchange and other trading revenue and investment and other income.

(b) Excludes the net negative impact of money market fee waivers, amortization of intangible assets and provision for credit losses and is net of distribution and servicing expense. See “Supplemental information – Explanation of GAAP and Non-GAAP financial measures” beginning on page 49 for the reconciliation of this Non-GAAP measure.

N/M - Not meaningful.

AUM trends (a)						2Q16 vs.	
(dollar amounts in billions)	2Q16	1Q16	4Q15	3Q15	2Q15	1Q16	2Q15
AUM at period end, by product type:							
Equity	$225	$222	$224	$224	$248	1 %	(9)%
Fixed income	218	219	216	216	215	—	1
Index	305	319	329	325	366	(4)	(17)
Liability-driven investments (b)	573	542	514	520	520	6	10
Alternative investments	68	66	63	62	62	3	10
Cash	275	271	279	278	289	1	(5)
Total AUM	$1,664	$1,639	$1,625	$1,625	$1,700	2 %	(2)%
AUM at period end, by client type:							
Institutional	$1,182	$1,155	$1,127	$1,129	$1,163	2 %	2 %
Mutual funds	398	405	420	419	454	(2)	(12)
Private client	84	79	78	77	83	6	1
Total AUM	$1,664	$1,639	$1,625	$1,625	$1,700	2 %	(2)%
Changes in AUM:							
Beginning balance of AUM	$1,639	$1,625	$1,625	$1,700	$1,717		
Net inflows (outflows):							
Long-term:							
Equity	(2)	(3)	(9)	(4)	(13)		
Fixed income	(2)	—	1	(3)	(2)		
Liability-driven investments (b)	15	14	11	11	5		
Alternative investments	1	1	2	1	3		
Total long-term active inflows (outflows)	12	12	5	5	(7)		
Index	(17)	(11)	(16)	(10)	(9)		
Total long-term (outflows) inflows	(5)	1	(11)	(5)	(16)		
Short term:							
Cash	4	(9)	2	(10)	(11)		
Total net (outflows)	(1)	(8)	(9)	(15)	(27)		
Net market impact/other	71	41	24	(35)	(29)		
Net currency impact	(47)	(19)	(15)	(25)	39		
Acquisition	2	—	—	—	—		
Ending balance of AUM	$1,664	$1,639	$1,625	$1,625	$1,700	2 %	(2)%

(a) Excludes securities lending cash management assets and assets managed in the Investment Services business and the Other segment.
(b) Includes currency overlay AUM.

Business description

Our Investment Management business consists of our affiliated investment management boutiques, wealth management business and global distribution companies. See pages 23 and 24 of our 2015 Annual Report for additional information on our Investment Management business.

Review of financial results

Investment management and performance fees are dependent on the overall level and mix of AUM and the management fees expressed in basis points (one-hundredth of one percent) charged for managing those assets. Assets under management were $1.66 trillion at June 30, 2016 compared with $1.70 trillion at June 30, 2015, a decrease of 2%. The decrease primarily reflects net outflows primarily in 2015 and the unfavorable impact of a stronger U.S. dollar

(principally versus the British pound), offset by higher market values.

Net long-term outflows were $5 billion in the second quarter of 2016 driven by index investments, offset by the continued strength in liability-driven investments. Net short-term inflows were $4 billion in the second quarter of 2016.

Total revenue was $938 million, a decrease of 5% compared with the second quarter of 2015 and an increase of 5% (unannualized) compared with the first quarter of 2016. The year-over-year decrease primarily reflects losses on hedging activities, net outflows in 2015 and the unfavorable impact of a stronger U.S. dollar. The sequential increase primarily reflects higher equity market values, lower losses on hedging activities, higher seed capital gains, and the impact of the Atherton acquisition, partially offset by net outflows.

Revenue generated in the Investment Management business included 40% from non-U.S. sources in the second quarter of 2016, compared with 42% in the second quarter of 2015 and 40% in the first quarter of 2016.

Investment management fees in the Investment Management business were $808 million, a decrease of 3% compared with the second quarter of 2015 and an increase of 3% (unannualized) compared with the first quarter of 2016. The year-over-year decrease primarily reflects outflows in 2015 and the unfavorable impact of a stronger U.S. dollar, partially offset by higher money market fees and the impact of the Atherton acquisition. On a constant currency basis (Non-GAAP), investment management fees decreased 2% compared with the second quarter of 2015. The sequential increase primarily reflects higher equity market values and the impact of the Atherton acquisition, partially offset by net outflows.

In the second quarter of 2016, 38% of investment management fees in the Investment Management business were generated from managed mutual fund fees. These fees are based on the daily average net assets of each fund and the management fee paid by that fund. Managed mutual fund fee revenue was $304 million in the second quarter of 2016 compared with $312 million in the second quarter of 2015 and $300 million in the first quarter of 2016. The decrease compared with the second quarter of 2015 primarily reflects net outflows. The increase compared with the first quarter of 2016 primarily reflects higher equity market values, partially offset by net outflows.

Performance fees were $9 million compared with $20 million in the second quarter of 2015 and $11 million in the first quarter of 2016.

Distribution and servicing fees were $49 million compared with $38 million in the second quarter of 2015 and $46 million in the first quarter of 2016. The year-over-year increase primarily reflects higher money market fees.

Other losses were $10 million compared with other revenue of $17 million in the second quarter of 2015 and other losses of $31 million in the first quarter of 2016. The year-over-year decrease primarily reflects losses on hedging activities and increased payments to Investment Services related to higher money market fees, partially offset by higher seed capital gains. The sequential increase primarily reflects

lower losses on hedging activities and higher seed capital gains.

Net interest revenue was $82 million compared with $77 million in the second quarter of 2015 and $83 million in the first quarter of 2016. The increase compared with the second quarter of 2015 primarily reflects record average loans and increased deposits, partially offset by the impact of changes in the internal crediting rates for deposits beginning in the first quarter of 2016. Average loans increased 20% compared with the second quarter of 2015 and 4% compared with the first quarter of 2016, while average deposits increased 6% compared with the second quarter of 2015 and decreased 3% compared with the first quarter of 2016.

Noninterest expense, excluding amortization of intangible assets, was $684 million, a decrease of 2% compared with the second quarter of 2015 and an increase of 4% compared with the first quarter of 2016. The year-over-year decrease primarily reflects lower incentive expense and the favorable impact of a stronger U.S. dollar, partially offset by higher distribution and servicing expense driven by lower money market fee waivers. Both comparisons reflect the impact of the Atherton acquisition and higher professional, legal and other purchased services. The sequential increase also reflects higher staff expense.

Year-to-date 2016 compared with year-to-date 2015

Income before taxes totaled $451 million in the first six months of 2016 compared with $522 million in the first six months of 2015. Income before taxes excluding amortization of intangible assets, was $489 million compared with $571 million in the first six months of 2015. Fee and other revenue decreased $161 million compared with the first six months of 2015, primarily reflecting net outflows primarily in 2015, lower seed capital gains, losses on hedging activities and the unfavorable impact of a stronger U.S. dollar, partially offset by higher money market fees. Net interest revenue increased $13 million compared with the first six months of 2015, primarily due to increased loans and deposits, partially offset by the impact of changes in the internal crediting rates for deposits beginning in the first quarter of 2016. Noninterest expense, excluding amortization of intangible assets, decreased $64 million compared with the first six months of 2015, primarily reflecting lower incentive expense and the favorable impact of a stronger U.S. dollar, partially offset by higher distribution and servicing expense driven by lower money market fee waivers.

Investment Services business

(dollars in millions, unless otherwise noted)	2Q16	1Q16	4Q15	3Q15	2Q15	2Q16 vs. 1Q16	2Q16 vs. 2Q15	Year-to-date 2016	Year-to-date 2015	YTD16 vs. YTD15
Revenue:										
Investment services fees:										
Asset servicing	$1,043	$1,016	$1,009	$1,034	$1,038	3 %	— %	$2,059	$2,055	— %
Clearing services	350	348	337	345	346	1	1	698	688	1
Issuer services	233	244	199	312	234	(5)	—	477	465	3
Treasury services	137	129	135	135	141	6	(3)	266	276	(4)
Total investment services fees	1,763	1,737	1,680	1,826	1,759	1	—	3,500	3,484	—
Foreign exchange and other trading revenue	161	168	150	179	181	(4)	(11)	329	393	(16)
Other (a)	130	125	127	129	117	4	11	255	209	22
Total fee and other revenue	2,054	2,030	1,957	2,134	2,057	1	—	4,084	4,086	—
Net interest revenue	690	679	664	662	667	2	3	1,369	1,296	6
Total revenue	2,744	2,709	2,621	2,796	2,724	1	1	5,453	5,382	1
Provision for credit losses	(7)	14	8	7	6	N/M	N/M	7	13	N/M
Noninterest expense (ex. amortization of intangible assets)	1,819	1,770	1,791	1,853	1,874	3	(3)	3,589	3,696	(3)
Income before taxes (ex. amortization of intangible assets)	932	925	822	936	844	1	10	1,857	1,673	11
Amortization of intangible assets	40	38	40	41	40	5	—	78	81	(4)
Income before taxes	$892	$887	$782	$895	$804	1 %	11 %	$1,779	$1,592	12 %
Pre-tax operating margin	33 %	33 %	30 %	32 %	30 %			33 %	30 %	

Pre-tax operating margin (ex. provision for credit losses and amortization of intangible assets)	34 %	35 %	32 %	34 %	31 %			34 %	31 %	
Investment services fees as a percentage of noninterest expense (ex. amortization of intangible assets) (b)	97 %	98 %	94 %	99 %	94 %			98 %	94 %	
Securities lending revenue	$42	$42	$39	$33	$43	— %	(2)%	$84	$81	4 %
Metrics:										
Average loans	$43,786	$45,004	$45,844	$46,222	$45,822	(3)%	(4)%	$44,395	$45,448	(2)%
Average deposits	$221,998	$215,707	$229,241	$232,250	$238,404	3 %	(7)%	$218,852	$236,972	(8)%
AUC/A at period end (in trillions) (c)	$29.5	$29.1	$28.9	$28.5	$28.6	1 %	3 %	$29.5	$28.6	3 %
Market value of securities on loan at period end (in billions) (d)	$278	$300	$277	$288	$283	(7)%	(2)%	$278	$283	(2)%
Asset servicing: Estimated new business wins (AUC/A) (in billions)	$167	$40	$49	$84	$933					
Depositary Receipts: Number of sponsored programs	1,112	1,131	1,145	1,176	1,206	(2)%	(8)%			

Clearing services:							
Average active clearing accounts (U.S. platform) (in thousands)	5,946	5,947	5,959	6,107	6,046	— %	(2)%
Average long-term mutual fund assets (U.S. platform)	$431,150	$415,025	$437,260	$447,287	$466,195	4 %	(8)%
Average investor margin loans (U.S. platform)	$10,633	$11,063	$11,575	$11,806	$11,890	(4)%	(11)%
Broker-Dealer:							
Average tri-party repo balances (in billions)	$2,108	$2,104	$2,153	$2,142	$2,174	— %	(3)%

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

(b) Investment services fees as a percentage of noninterest expense (ex. amortization of intangible assets) was lower in 2Q15 primarily reflecting litigation expense.

(c) Includes the AUC/A of CIBC Mellon of $1.1 trillion at June 30, 2016 and March 31, 2016, $1.0 trillion at Dec. 31, 2015 and Sept. 30, 2015 and $1.1 trillion at June 30, 2015.

(d) Represents the total amount of securities on loan managed by the Investment Services business. Excludes securities for which BNY Mellon acts as agent on behalf of CIBC Mellon clients, which totaled $56 billion at June 30, 2016 and March 31, 2016, $55 billion at Dec. 31, 2015, $61 billion at Sept. 30, 2015 and $68 billion at June 30, 2015.

N/M - Not meaningful.

Business description

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

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

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

We are one of the leading global securities servicing providers with $29.5 trillion of AUC/A at June 30, 2016. We are one of the largest custodians for U.S. corporate and public pension plans and we service 50% of the top-50 endowments. We are a leading custodian in the UK, servicing around a fifth of UK pensions that require a custodian, and with

approximately 20% of such assets for the sector in our custody. Globalization tends to drive cross-border investment and capital flows, which increases the opportunity to provide solutions to our clients. The changing regulatory environment is also driving client demand for new solutions and services.

BNY Mellon is a leader in both global and U.S. Government securities clearance. We settle securities transactions in over 100 markets and handle most of the transactions cleared through the Federal Reserve Bank of New York for 19 of the 23 primary dealers. We are a leader in servicing tri-party collateral with approximately $2.1 trillion serviced globally. We currently service approximately $1.3 trillion, or approximately 85%, of the $1.6 trillion tri-party repo market in the U.S.

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

In securities lending, we are one of the largest lenders of U.S. Treasury securities and depositary receipts and service a lending pool of approximately $3.0 trillion in 33 markets.

We served as depositary for 1,112 sponsored American and global depositary receipt programs at June 30, 2016, acting in partnership with leading companies from 63 countries - an estimated 57% global market share.

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

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

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

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

Review of financial results

AUC/A totaled $29.5 trillion, an increase from $28.6 trillion at June 30, 2015. The increase was primarily driven by net new business and higher market values, partially offset by the unfavorable impact of a stronger U.S. dollar. AUC/A consisted of 34% equity securities and 66% fixed income securities at June 30, 2016 compared with 36% equity securities and 64% fixed income securities at June 30, 2015.

Investment services fees were $1.8 billion, flat compared with the second quarter of 2015 and an increase of 1% compared with the first quarter of 2016 (unannualized) reflecting the following factors:

- Asset servicing fees (global custody, broker-dealer services and Global Collateral Services) were $1.043 billion compared with $1.038 billion in the second quarter of 2015 and $1.016 billion in the first quarter of 2016. The year-over-year increase primarily reflects net new business and higher money market fees, partially offset by lower market values and the unfavorable impact of a stronger U.S. dollar. The sequential increase

primarily reflects higher market values and net new business.

- Clearing services fees were $350 million compared with $346 million in the second quarter of 2015 and $348 million in the first quarter of 2016. The year-over-year increase was primarily driven by higher money market fees, partially offset by the impact of lost business. Sequentially, higher average balances and the increase in the number of trading days were partially offset by lower volumes.
- Issuer services fees (Corporate Trust and Depositary Receipts) were $233 million compared with $234 million in the second quarter of 2015 and $244 million in the first quarter of 2016. Both comparisons reflect lower Depositary Receipts revenue. Year-over-year, issuer services fees also reflect higher money market fees in Corporate Trust.
- Treasury services fees were $137 million compared with $141 million in the second quarter of 2015 and $129 million in the first quarter of 2016. The year-over-year decrease primarily reflects higher compensating balance credits provided to clients, which shifts revenue from fees to net interest revenue. The sequential increase primarily reflects higher payment volumes due to an increase in the number of trading days.

Foreign exchange and other trading revenue totaled $161 million compared with $181 million in the second quarter of 2015 and $168 million in the first quarter of 2016. The year-over-year decrease primarily reflects lower volumes. The sequential decrease primarily reflects the continued trend of clients migrating to lower margin products.

Other revenue was $130 million compared with $117 million in the second quarter of 2015 and $125 million in the first quarter of 2016. The year-over-year increase primarily reflects increased payments from Investment Management related to higher money market fees, partially offset by certain fees paid to introducing brokers. The sequential increase primarily reflects higher financing-related fees.

Net interest revenue was $690 million compared with $667 million in the second quarter of 2015 and $679 million in the first quarter of 2016. The year-over-year increase primarily reflects the impact of changes in the internal crediting rates for deposits, partially offset by lower average deposits. The sequential increase primarily reflects higher average deposits.

Noninterest expense, excluding amortization of intangible assets, was $1.82 billion compared with $1.87 billion in the second quarter of 2015 and $1.77 billion in the first quarter of 2016. The year-over-year decrease primarily reflects lower litigation expense, partially offset by higher staff expense. The sequential increase primarily reflects higher staff expense, partially offset by lower litigation expense.

Year-to-date 2016 compared with year-to-date 2015

Income before taxes totaled $1.8 billion in the first six months of 2016 compared with $1.6 billion in the first six months of 2015. Excluding intangible amortization, income before taxes increased $184 million. Fee and other revenue decreased slightly as higher investment servicing fees and other revenue were offset by lower foreign exchange and other trading revenue. The $73 million increase in net interest revenue primarily reflects the impact of changes in the internal crediting rates for deposits, partially offset by lower average deposits. Noninterest expense, excluding intangible amortization, decreased $107 million primarily due to lower litigation, professional, legal and other purchased services and staff expenses.

Other segment

						Year-to-date	
(dollars in millions)	2Q16	1Q16	4Q15	3Q15	2Q15	2016	2015
Revenue:							
Fee and other revenue	$95	$129	$89	$59	$103	$224	$188
Net interest (expense) revenue	(5)	4	12	14	35	(1)	59
Total revenue	90	133	101	73	138	223	247
Provision for credit losses	(3)	(3)	159	(7)	(15)	(6)	(19)
Noninterest expense (ex. amortization of intangible assets and M&I and restructuring charges (recoveries))	53	141	150	97	79	194	187
Income (loss) before taxes (ex. amortization of intangible assets and M&I and restructuring charges (recoveries))	40	(5)	(208)	(17)	74	35	79
Amortization of intangible assets	—	—	—	1	—	—	1
M&I and restructuring charges (recoveries)	3	(1)	(4)	(2)	8	2	4
Income (loss) before taxes	$37	$(4)	$(204)	$(16)	$66	$33	$74
Average loans and leases	$1,703	$1,917	$2,673	$2,656	$2,956	$1,810	$2,099

See page 20 of our first quarter 2016 Form 10-Q for a description of the Other segment.

Review of financial results

Total fee and other revenue decreased $8 million compared with the second quarter of 2015 and $34 million compared with the first quarter of 2016. Both decreases primarily reflect lower lease-related gains. The year-over-year decrease was partially offset by the positive impact of foreign currency hedging activities and higher fixed income trading.

Net interest revenue decreased $40 million compared with the second quarter of 2015 and $9 million compared with the first quarter of 2016. Both decreases reflect lower average loans and leases. The year-over-year decrease also reflects the negative impact of interest rate hedging and higher premium amortization adjustments related to the decrease in interest rates.

Noninterest expense, excluding amortization of intangible assets, M&I and restructuring charges (recoveries), decreased $26 million compared with the second quarter of 2015 and $88 million compared with the first quarter of 2016. Both comparisons were impacted by lower staff expense and professional, legal and other purchased services.

Year-to-date 2016 compared with year-to-date 2015

Income before taxes in the Other segment was $33 million in the first six months of 2016 compared with $74 million in the first six months of 2015. Total revenue decreased $24 million primarily reflecting lower net interest revenue, the impact of the July 2015 sale of Meriten and lower other revenue, partially offset by the positive impact of foreign currency hedging activities and higher fixed income trading revenue. Noninterest expense, excluding amortization of intangible assets, M&I and restructuring charges, increased $7 million, primarily reflecting higher staff expense partially offset by lower professional, legal and other purchased services and business development expense.

Critical accounting estimates

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in our 2015 Annual Report. Our critical accounting estimates are those related to the allowance for loan losses and allowance for lending-related commitments, fair value of financial instruments and derivatives, other-than-temporary impairment (“OTTI”), goodwill and other intangibles, and pension accounting, as referenced below.

Critical policy	Reference
Allowance for loan losses and allowance for lending-related commitments	2015 Annual Report, pages 33 - 35.
Fair value of financial instruments and derivatives	2015 Annual Report, pages 35 - 37.
OTTI	2015 Annual Report, page 37.
Goodwill and other intangibles	2015 Annual Report, pages 37 - 38 and Note 5 beginning on page 76.
Pension accounting	2015 Annual Report, pages 38 - 40.

Consolidated balance sheet review

At June 30, 2016, total assets were $372 billion compared with $394 billion at Dec. 31, 2015. The decrease in total assets was primarily driven by lower customer deposits. Deposits totaled $260 billion at June 30, 2016 and $280 billion at Dec. 31, 2015. At June 30, 2016, total interest-bearing deposits were 51% of total interest-earning assets, compared with 54% at Dec. 31, 2015.

Total assets averaged $374 billion in the second quarter of 2016 compared with $378 billion in the second quarter of 2015 and $365 billion in the first quarter of 2016. The decrease in average total assets compared with the second quarter of 2015 was primarily driven by lower customer deposits. The increase in average total assets compared with the

first quarter of 2016 was primarily driven by higher customer deposits and commercial paper.

Total deposits averaged $249 billion in the second quarter of 2016 compared with $256 billion in the second quarter of 2015 and $245 billion in the first quarter of 2016. The year-over-year decrease in average total deposits primarily reflects a decrease in deposits located in foreign offices and demand deposits. The sequential increase primarily reflects higher levels of time deposits and noninterest-bearing deposits, partially offset by a decrease in deposits located in foreign offices.

At June 30, 2016, we had $41 billion of liquid funds (which include interest-bearing deposits with banks and federal funds sold and securities purchased under resale agreements) and $94 billion of cash (including $88 billion of overnight deposits with the Federal Reserve and other central banks) for a total of $135 billion of available funds. This compares with available funds of $159 billion at Dec. 31, 2015. The decrease in available funds primarily reflects the decrease of overnight deposits with the Federal Reserve and other central banks.

Total available funds as a percentage of total assets was 36% at June 30, 2016 compared with 40% at Dec. 31, 2015. Of the $41 billion in liquid funds held at June 30, 2016, $13 billion was placed in interest-bearing deposits with large, highly-rated global financial institutions with a weighted-average life to maturity of approximately 40 days. Of the $13 billion, $4 billion was placed with banks in the Eurozone.

Investment securities were $117.6 billion, or 32% of total assets, at June 30, 2016, compared with $119.2 billion, or 30% of total assets, at Dec. 31, 2015. The decrease primarily reflects a decrease in sovereign debt/sovereign guaranteed, agency RMBS and other asset-backed securities, partially offset by an increase in agency commercial MBS.

Loans were $64.5 billion, or 17% of total assets, at June 30, 2016, compared with $63.7 billion, or 16% of total assets, at Dec. 31, 2015. The increase primarily reflects higher levels of overdrafts and wealth management loans and mortgages, partially offset by lower levels of loans to financial institutions.

Long-term debt totaled $23.6 billion at June 30, 2016 and $21.5 billion at Dec. 31, 2015. The increase reflects the issuance of $3.0 billion of senior debt and an increase in the fair value of hedged long-term debt, partially offset by the maturity of $1.45 billion of long-term debt. The Parent has $1.0 billion of long-term debt that will mature in the remainder of 2016.

The Bank of New York Mellon Corporation total shareholders' equity increased to $38.6 billion from $38.0 billion at Dec. 31, 2015. The increase primarily reflects earnings retention, approximately $308 million resulting from stock awards, the exercise of stock options and stock issued for employee benefit plans, and an increase in the unrealized gain on our investment securities portfolio. The increase was partially offset by share repurchases and foreign currency translation adjustments.

Country risk exposure

We have exposure to certain countries and territories that have had a heightened focus due to recent events. Where appropriate, we offset the credit risk associated with the exposure in these countries with collateral that has been pledged, which primarily consists of cash or marketable securities, or by transferring the risk to a third-party guarantor in another country or territory. Exposure described below reflects the country of operations and risk of the immediate counterparty. We continue to monitor our exposure to these and other countries as part of our Risk Management process. See "Risk management" in our 2015 Annual Report for additional information on how our exposures are managed.

BNY Mellon has a limited economic interest in the performance of assets of consolidated investment management funds, and therefore they are excluded from this disclosure.

Ireland, Italy, Spain, Portugal and Greece

Over the past several years, there have been concerns about European sovereign debt and its impact on the European banking system, as a number of European countries, including Ireland, Italy, Spain, Portugal and Greece, experienced credit deterioration. We had total net exposure to Ireland, Italy and Spain of $5.3 billion at June 30, 2016 including $1.7 billion to Ireland, $1.5 billion to Italy and $2.1 billion to Spain. The total net exposure was $4.9 billion at Dec. 31,

2015, including $1.3 billion to Ireland, $1.6 billion to Italy and $2.0 billion to Spain. Exposure to Ireland, Italy and Spain at both periods primarily consisted of investment grade sovereign debt and European Floating Rate notes. At June 30, 2016, investment securities exposure totaled $901 million in Ireland, $1.4 billion in Italy and $2.0 billion in Spain. At Dec. 31, 2015, investment securities exposure totaled $895 million in Ireland, $1.4 billion in Italy and $2.0 billion in Spain. At June 30, 2016, BNY Mellon had exposure of $3 million to Portugal and less than $1 million to Greece. At Dec. 31, 2015, we had exposure of less than $1 million to Portugal and Greece.

Brazil

Current conditions in Brazil have resulted in increased focus on its economic and political stability. We have operations in Brazil providing investment services and investment management services. In addition, at June 30, 2016 and Dec. 31, 2015, we had total net exposure to Brazil of $1.9 billion and $2.2 billion, respectively. This included $1.8 billion and $2.1 billion, respectively, in loans, which are primarily short-term trade finance loans extended to large financial institutions. At June 30, 2016, we held $76 million of noninvestment grade sovereign debt and at Dec. 31, 2015, we held $95 million of investment grade sovereign debt.

Russia

Events in Russia significantly increased geopolitical tensions in Central and Eastern Europe. We provide investment services for companies in Russia, including acting as depositary for a significant number of depositary receipt clients, and investment management services primarily through our noncontrolling interest in an asset manager. At June 30, 2016 and Dec. 31, 2015, our exposure to Russia was $34 million and $63 million, respectively. To date, our businesses with Russian exposure have not been materially impacted by the ongoing tensions, sanctions or impact of the volatility in oil prices.

Puerto Rico

Recent concerns regarding financial conditions in Puerto Rico have resulted in increased focus on its ability to repay its debt. At June 30, 2016 and Dec. 31, 2015, BNY Mellon had margin loan exposure of approximately $45 million and $50 million, respectively, where the collateral received has a concentration of Puerto Rican securities. We have increased our margin requirements and believe the impact of potential negative outcomes in Puerto Rico would not be material.

Turkey

Recent political events have increased our scrutiny of exposures to Turkish institutions. We mainly provide treasury and issuer services, as well as foreign exchange products to the top-ten largest financial institutions in the country. As of June 30, 2016, our exposure totaled $818 million, consisting primarily of syndicated credit facilities and trade finance loans.

Investment securities

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

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

Investment securities portfolio	March 31, 2016	2Q16 change in unrealized gain (loss)	June 30, 2016		Fair value as a % of amortized cost (a)	Unrealized gain (loss)	Ratings				
(dollars in millions)	Fair value		Amortized cost	Fair value			AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+ and lower	Not rated
Agency RMBS	$49,870	$157	$48,947	$49,506	101 %	$559	100 %	— %	— %	— %	— %
U.S. Treasury	23,870	110	23,716	23,893	101	177	100	—	—	—	—
Sovereign debt/sovereign guaranteed (b)	15,866	56	15,309	15,605	102	296	73	5	22	—	—
Non-agency RMBS (c)	1,685	(19)	1,237	1,529	80	292	—	1	1	90	8
Non-agency RMBS	862	4	789	797	93	8	8	3	17	71	1
European floating rate notes (d)	1,244	(2)	1,137	1,104	97	(33)	65	30	5	—	—
Commercial MBS	6,003	46	6,250	6,316	101	66	98	2	—	—	—
State and political subdivisions	3,740	19	3,657	3,765	103	108	80	17	—	—	3
Foreign covered bonds (e)	2,279	7	2,334	2,376	102	42	100	—	—	—	—
Corporate bonds	1,737	9	1,554	1,610	104	56	15	69	16	—	—
CLOs	2,424	5	2,494	2,482	100	(12)	100	—	—	—	—
U.S. Government agencies	1,881	(6)	1,904	1,889	99	(15)	100	—	—	—	—
Consumer ABS	2,408	6	2,460	2,454	100	(6)	100	—	—	—	—
Other (f)	3,893	—	3,949	4,002	101	53	54	—	43	—	3
Total investment securities	$117,762 (g)	$392	$115,737	$117,328 (g)	101 %	$1,591 (g)(h)	91 %	2 %	5 %	2 %	— %

(a) Amortized cost before impairments.
(b) Primarily consists of exposure to UK, France, Germany, Spain and Italy.
(c) These RMBS were included in the former Grantor Trust and were marked-to-market in 2009. We believe these RMBS would receive higher credit ratings if these ratings incorporated, as additional credit enhancements, the difference between the written-down amortized cost and the current face amount of each of these securities.
(d) Includes RMBS and commercial MBS. Primarily consists of exposure to UK and Netherlands.
(e) Primarily consists of exposure to Canada, UK, Norway and Netherlands.
(f) Includes commercial paper with a fair value of $1.7 billion and $1.7 billion and money market funds with a fair value of $862 million and $865 million at March 31, 2016 and June 30, 2016, respectively.
(g) Includes net unrealized losses on derivatives hedging securities available-for-sale of $763 million at March 31, 2016 and $1,023 million at June 30, 2016.
(h) Unrealized gains of $840 million at June 30, 2016 related to available-for-sale securities.

The fair value of our investment securities portfolio was $117.3 billion at June 30, 2016 compared with $118.8 billion at Dec. 31, 2015. The decrease primarily reflects a decrease in sovereign debt/sovereign guaranteed, consumer ABS and state and

political subdivisions, partially offset by an increase in commercial MBS.

At June 30, 2016, the total investment securities portfolio had a net unrealized pre-tax gain of $1.6 billion compared with $357 million at Dec. 31, 2015,

including the impact of related hedges. The increase in the net unrealized pre-tax gain was primarily driven by a decline in market interest rates.
The unrealized gain net of tax on our available-for-sale investment securities portfolio included in accumulated other comprehensive income was $583 million at June 30, 2016, compared with $329 million at Dec. 31, 2015.

At June 30, 2016, 91% of the securities in our portfolio were rated AAA/AA- compared with 90% at Dec. 31, 2015.

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

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

Net premium amortization and discount accretion of investment securities (a)

(dollars in millions)	2Q16	1Q16	4Q15	3Q15	2Q15
Amortizable purchase premium (net of discount) relating to investment securities:					
Balance at period end	$2,251	$2,233	$2,319	$2,433	$2,492
Estimated average life remaining at period end (in years)	4.4	4.5	4.7	4.6	4.7
Amortization	$169	$163	$161	$176	$183
Accretable discount related to the prior restructuring of the investment securities portfolio:					
Balance at period end	$342	$325	$355	$401	$420
Estimated average life remaining at period end (in years)	5.9	6.0	6.1	6.0	6.0
Accretion	$26	$27	$29	$33	$32

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

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

Net securities gains (losses)

(in millions)	2Q16	1Q16	2Q15	YTD16	YTD15
Agency RMBS	$ 5	$ 8	$ 1	$ 13	$ 1
Foreign covered bonds	—	10	1	10	1
U.S. Treasury	4	1	11	5	34
Non-agency RMBS	4	(2)	(1)	2	(2)
Other	8	3	4	11	6
Total net securities gains	$ 21	$ 20	$ 16	$ 41	$ 40

On a quarterly basis, we perform our impairment analysis using several factors, including projected loss severities and default rates. In the second quarter of 2016, this analysis resulted in other-than-temporary credit losses of $2 million primarily in our non-agency RMBS portfolio. At June 30, 2016, if we were to increase or decrease each of our projected loss severities and default rates by 100 basis points on each of the positions in our non-agency RMBS portfolio, including the securities previously held by the Grantor Trust, credit-related impairment charges on these securities would have increased or decreased by less than $1 million (pre-tax). See Note 3 of the Notes to Consolidated Financial Statements for the projected weighted-average default rates and loss severities.

The following table shows the fair value of the European floating rate notes by geographical location at June 30, 2016. The unrealized loss on these securities was $33 million at June 30, 2016, compared with $24 million at Dec. 31, 2015.

European floating rate notes at June 30, 2016 (a)

(in millions)	RMBS	Other	Total fair value
United Kingdom	$612	$ 62	$674
Netherlands	316	—	316
Ireland	113	—	113
Other	1	—	1
Total fair value	$1,042	$ 62	$1,104

(a) 65% of these securities are in the AAA to AA- ratings category.

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

Loans

Total exposure – consolidated	June 30, 2016			Dec. 31, 2015		
(in billions)	Loans	Unfunded commitments	Total exposure	Loans	Unfunded commitments	Total exposure
Non-margin loans:						
Financial institutions	$14.2	$ 34.6	$ 48.8	$15.9	$ 36.0	$ 51.9
Commercial	2.7	17.8	20.5	2.3	18.2	20.5
Subtotal institutional	16.9	52.4	69.3	18.2	54.2	72.4
Wealth management loans and mortgages	14.5	1.3	15.8	13.3	1.6	14.9
Commercial real estate	4.4	3.2	7.6	3.9	3.3	7.2
Lease financings	1.8	—	1.8	1.9	—	1.9
Other residential mortgages	1.0	0.1	1.1	1.1	—	1.1
Overdrafts	6.1	—	6.1	4.5	—	4.5
Other	1.2	—	1.2	1.2	—	1.2
Subtotal non-margin loans	45.9	57.0	102.9	44.1	59.1	103.2
Margin loans	18.6	0.5	19.1	19.6	0.6	20.2
Total	$64.5	$ 57.5	$ 122.0	$63.7	$ 59.7	$ 123.4

At June 30, 2016, total exposures were $122.0 billion, a decrease of 1% from $123.4 billion at Dec. 31, 2015. The decrease in total exposure primarily reflects lower exposure in the financial institutions and the margin loans portfolios, partially offset by increases in overdrafts and exposure in the wealth management loans and mortgages and the commercial real estate portfolios.

Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios comprised 57% of our total lending exposure at June 30, 2016 and 59% at Dec. 31, 2015. Additionally, a substantial portion of our overdrafts relate to financial institutions.

Financial institutions

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

Financial institutions	June 30, 2016					Dec. 31, 2015		
portfolio exposure (dollar amounts in billions)	Loans	Unfunded commitments	Total exposure	% Inv. grade	% due <1 yr	Loans	Unfunded commitments	Total exposure
Securities industry	$3.7	$ 20.2	$ 23.9	98 %	99 %	$3.1	$ 20.6	$ 23.7
Banks	7.4	2.1	9.5	67	89	9.4	2.1	11.5
Asset managers	1.6	5.8	7.4	99	83	2.0	5.6	7.6
Insurance	0.1	3.9	4.0	99	29	0.2	4.5	4.7
Government	0.1	1.2	1.3	93	41	0.1	1.9	2.0
Other	1.3	1.4	2.7	93	36	1.1	1.3	2.4
Total	$14.2							