



PILLAR 3 DISCLOSURE
AS OF DECEMBER 31, 2014

THE BANK OF NEW YORK MELLON CORPORATION



BNY MELLON

THE BANK OF NEW YORK MELLON CORPORATION
PILLAR 3 DISCLOSURE REPORT
DEC. 31, 2014
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Disclosure Road Map

The table below shows where disclosures relating to topics addressed in this Pillar 3 disclosure report can be found in The Bank of New York Mellon Corporation's 2014 Annual Report to Shareholders (the "Annual Report") included with the Annual Report on Form 10-K.

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Introduction

In this Pillar 3 disclosure report (this “Report”), references to “our,” “we,” “us,” “BNY Mellon,” the “Company” and similar terms refer to The Bank of New York Mellon Corporation and its consolidated subsidiaries. References in this Report to “Parent” or the “Holding Company” refer to The Bank of New York Mellon Corporation on a standalone basis.

Certain business terms and commonly used acronyms used in this Report are defined in the Glossary and Acronyms sections.

Investors should also read the section titled “Forward-looking Statements.”

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK). BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of Dec. 31, 2014, BNY Mellon had \$28.5 trillion in assets under custody and/or administration, and \$1.7 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

Basis of Presentation

The accounting and financial reporting policies of BNY Mellon, a global financial services company, conform to U.S. GAAP and prevailing industry practices.

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

Capital Guidelines and Proposals

Capital Requirements - Existing U.S. Requirements

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

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

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

In addition, the risk-based capital rules incorporate a measure for market risk in foreign exchange and commodity activities and in the trading of debt and equity instruments. The market risk-based capital rules require banking organizations with significant trading activities to maintain capital for market risk in an amount calculated by using the banking

organizations' own internal value-at-risk ("VaR") models, subject to parameters set by the regulators.

Advanced Approaches Risk-Based Capital Rules

The U.S. banking agencies' Advanced Approaches risk-based capital rules are based on Basel II's Advanced Approaches. On Feb. 21, 2014, the Federal Reserve announced that BNY Mellon had been approved to exit parallel run reporting for U.S. regulatory capital purposes. As a result, on April 1, 2014 BNY Mellon transitioned from the general risk-based capital rules to the Advanced Approaches, subject to ongoing qualification. For purposes of determining whether we meet minimum risk-based capital requirements, starting with the second quarter of 2014, our common equity Tier 1 ("CET1"), Tier 1, and total capital ratios are determined using the higher of the risk-weighted assets ("RWA") as calculated under the general risk-based capital rules (which use Basel I-based risk weighting for 2014 and the Final Capital Rules' (as defined below) new Standardized Approach (as defined below) commencing on Jan. 1, 2015) and under the Advanced Approaches.

Capital Requirements - Basel III Final Capital Rules

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

- redefine the components of capital in the numerator of regulatory capital ratios in a more narrow way than existing standards and introduce a new capital ratio (namely, CET1);
- increase certain of the minimum risk-based capital ratios under the general risk-based capital rules and the Advanced Approaches;
- change the measure of RWA in the denominator of the general risk-based capital rules according to the "Standardized Approach," so that the

Standardized Approach is the new "general risk-based capital" standard;

- change the measure of RWA in denominator of the risk-based capital ratios in the agencies' Advanced Approaches rules;
- establish a capital conservation buffer;
- introduce a countercyclical capital buffer for banking organizations subject to the Advanced Approaches risk-based capital rules ("Advanced Approaches banking organizations"); and
- establish a supplementary leverage ratio ("SLR") for Advanced Approaches banking organizations.

The Final Capital Rules allow a graduated implementation schedule that began on Jan. 1, 2014 for Advanced Approaches banking organizations, including BNY Mellon and will be substantially phased-in by 2019. The applicable transition periods for the revised minimum regulatory capital ratios, definitions of regulatory capital, and regulatory capital adjustments and deductions also began on Jan. 1, 2014. In addition, BNY Mellon must:

- begin using the new Standardized Approach risk-weightings on Jan. 1, 2015. During 2014, the Final Capital Rules looked to Basel I's risk-weightings in lieu of its Standardized Approach;
- meet the minimum ratios for the capital conservation buffer and countercyclical capital buffer during the transition period beginning on Jan. 1, 2016; and
- begin compliance with the new Basel III-based SLR on Jan. 1, 2018.

New Minimum Capital Ratios and Capital Buffers

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

- a new **CET1** ratio of 4.0% as of Jan. 1, 2014, increasing to 4.5% beginning Jan. 1, 2015;
- a **Tier 1 capital ratio** of 5.5% on Jan. 1, 2014, increasing to 6.0% beginning Jan. 1, 2015; and
- a **Total capital ratio** of 8.0% (unchanged from the general risk-based capital rules).

In addition, these minimum ratios will be supplemented by a new capital conservation buffer that phases in, beginning on Jan. 1, 2016, in increments of 0.625% per year until it reaches 2.5% on Jan. 1, 2019. The capital conservation buffer can only be satisfied with CET1 capital.

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

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

The Final Capital Rules' buffers are also expected to be supplemented by a risk-based capital surcharge on G-SIBs. In December 2014, the Federal Reserve issued a notice of proposed rulemaking (the "Proposed U.S. G-SIB Rule") to establish risk-based capital surcharges for systemically important U.S. BHCs.

The Proposed U.S. G-SIB Rule retains the surcharge calculation from the Basel G-SIB framework (which is referred to as "method 1"). However, it introduces an additional calculation approach (which is referred to as "method 2") that uses a new indicator designed to address perceived risks of short-term wholesale funding. Under the Proposed U.S. G-SIB Rule, a G-SIB's surcharge is determined by taking the higher of the G-SIB's surcharge determined under the two methods.

The capital surcharge under the Proposed U.S. G-SIB Rule would be implemented as an extension of the capital conservation buffer and can only be satisfied with CET1 capital. Consistent with the phase-in of the capital conservation buffer, the G-SIB capital surcharge would be phased in beginning on

Jan. 1, 2016 and become fully effective on Jan. 1, 2019.

The Proposed U.S. G-SIB Rule, if adopted in its current form, would result in higher surcharges for certain U.S. G-SIBs than would the Basel G-SIB framework. BNY Mellon could be subject to a surcharge that is greater than the prior estimate of 1.0% under the Basel G-SIB framework.

At Dec. 31, 2014 our Basel III Advanced Approach CET1 ratio was 11.2%, on a transitional basis.

New Measure of Capital

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

The Final Capital Rules redefine regulatory capital elements resulting in, among other things, cumulative perpetual preferred stock and trust preferred instruments no longer qualifying as Tier 1 capital, subject to a phase-out schedule. Non-qualifying capital instruments, such as trust preferred securities, that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 (and that are also outstanding on the effective date of the final rule) may continue to be included in Tier 1 or Tier 2 capital up to the following percentages: calendar year 2014: 50%; calendar year 2015: 25%; and calendar year 2016 and later dates: 0%. Certain non-qualifying instruments no longer eligible for inclusion in Tier 1 capital may still be included in Tier 2 capital over a gradual phase-out schedule terminating in 2022. At Dec. 31, 2014, BNY Mellon had \$312 million of outstanding trust preferred securities. As noted in our "Capital Structure" table, total outstanding trust preferred is allocated between Tier 1 and Tier 2 capital according to the phase-out schedule for the calendar year of 2014.

New Generally Applicable Risk-Based Capital Rules: Standardized Approach

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

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

with prior written approval of their primary Federal supervisor.

Leverage Ratios

As noted above, the U.S. banking agencies historically have required banks to meet a minimum Tier 1 leverage ratio. The Final Capital Rules retain this Tier 1 leverage ratio but now require a minimum 4% ratio for all banking organizations (eliminating the exception for certain banking organization to maintain only a 3% minimum). At Dec. 31, 2014, the Tier 1 leverage ratio for The Bank of New York Mellon Corporation was 5.6%.

The Final Capital Rules also implement a new 3% Basel III-based SLR for Advanced Approaches banking organizations, including BNY Mellon, to become effective Jan. 1, 2018. Unlike the Tier 1 leverage ratio, the SLR includes certain off-balance sheet exposures in the denominator, including the potential future credit exposure of derivative contracts and 10% of the notional amount of unconditionally cancelable commitments.

Subsequent to the U.S. banking agencies' adoption of the Final Capital Rules, the Basel Committee finalized (in Jan. 2014) modifications to the Basel III SLR. Those modifications would adjust the SLR's denominator (referred to as the "exposure amount") by making changes to the calculation of the exposure amount attributable to certain derivatives exposures and certain securities financing transactions but would retain the minimum Tier 1 SLR requirement of 3%. In September 2014, the U.S. federal banking agencies issued a final rule modifying the SLR denominator in the U.S. to align with the final Basel III changes to the SLR denominator.

In April 2014, the U.S. banking agencies adopted an "enhanced" SLR for banking organizations with total consolidated assets of more than \$700 billion or assets under custody of more than \$10 trillion, as well as their depository institution subsidiaries. The enhanced SLR would apply to the eight U.S. banking organizations that have been identified as G-SIBs by the Financial Stability Board (including BNY Mellon) and their insured depository institution subsidiaries. The enhanced SLR requires BNY Mellon and other U.S. G-SIBs to maintain a supplementary Tier 1 leverage ratio of greater than 5% (composed of the current minimum requirement of 3% plus a greater than 2% buffer) and requires

bank subsidiaries of those bank holding companies, to maintain a 6% SLR in order to qualify as “well capitalized” under the prompt corrective action regulations discussed below. The final enhanced SLR rule for U.S. G-SIBs, like the SLR more generally applicable to all Advanced Approaches banking organizations, will become effective on Jan. 1, 2018.

Total Loss Absorbing Capacity Proposal

In November 2014, the Financial Stability Board issued a consultative document (“TLAC Proposal”) regarding a proposal to institute a Total-Loss Absorbing Capacity (“TLAC”) requirement on G-SIBs. The TLAC Proposal would be effective no earlier than Jan. 1, 2019. Some key features of the TLAC Proposal include:

- The TLAC Proposal would set an external TLAC risk-based ratio requirement within the range of 16% to 20% of risk-weighted assets, and at a minimum twice the Basel III SLR requirement. Regulatory buffers are expected to be additive to these levels.
- Instruments eligible for external TLAC would generally include long-term senior unsecured debt instruments, as well as regulatory capital instruments. However, eligible TLAC that are not regulatory capital instruments would account for at least 33% of the minimum TLAC requirement.
- G-SIBs subject to the TLAC requirement, including BNY Mellon, would also be required to maintain a minimum amount of internal TLAC at certain material foreign subsidiaries. Under the TLAC Proposal, these material foreign subsidiaries would be required to maintain internal TLAC equal to 75%-90% of the minimum external TLAC requirement that would apply to it if it were a stand-alone resolution entity.

The U.S. banking agencies have not acted on this proposal.

Prompt Corrective Action

The Federal Deposit Institution Act (“FDI Act”), as amended by the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), requires the federal banking agencies to take “prompt corrective action” in respect of depository institutions that do not meet specified capital requirements. FDICIA establishes five capital categories for FDIC-insured banks: “well capitalized,” “adequately

capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” The FDI Act imposes progressively more restrictive constraints on operations, management and capital distributions the less capital the institution holds.

Prior to Jan. 1, 2015, a depository institution was deemed to be “well capitalized” if the depository institution has a total risk-based capital ratio of at least 10.0%; Tier 1 risk-based capital ratio of at least 6.0%; and Tier 1 leverage ratio of at least 5.0%. FDICIA’s prompt corrective action provisions only apply to depository institutions and not to BHCs. The Federal Reserve’s regulations applicable to BHCs separately define “well capitalized” for BHCs to require maintaining a total risk-based capital ratio of at least 10.0% and a Tier 1 risk-based capital ratio of at least 6.0% (but not a leverage measure). A BHC that is not well capitalized and well managed (or whose bank subsidiaries are not well capitalized and well managed under applicable prompt corrective action standards) may not become a financial holding company or, if it is already a financial holding company but fails to maintain well-capitalized status, may be restricted in certain of its activities and ultimately may lose financial holding company status. Applicable capital rules do not apply a CET1 or leverage capital standard for determining whether a BHC is well capitalized.

Effective Jan. 1, 2015, the Final Capital Rules establish revised “well capitalized” thresholds for insured depository institutions under the federal banking agencies’ prompt corrective action framework. Under the Final Capital Rules, an insured depository institution is deemed to be “well capitalized” if it has:

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

Effective January 2018, the Final Capital Rules also require an Advanced Approaches banking organization to maintain a SLR of at least 3% to qualify for the “adequately capitalized” status.

In addition, as noted above, the U.S. federal banking agencies’ revisions to the SLR establish a SLR “well capitalized” threshold of 6% for covered insured depository institutions, including The Bank of New York Mellon and BNY Mellon N.A.

At Dec. 31, 2014, BNY Mellon and all of its bank subsidiaries were “well capitalized” based on the ratios and rules applicable to them noted above. A bank’s capital category, however, is determined solely for the purpose of applying the prompt corrective action rules and may not be an accurate representation of the bank’s overall financial condition or prospects.

Pillar 3 Disclosure Report

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

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

On Jan. 28, 2014 the Basel Committee on Banking Supervision (the “Basel Committee”) issued final

revisions to the Pillar 3 disclosure requirements of the Basel framework. The revised disclosure requirements aim to provide market participants with greater comparability across banks’ disclosures. The Basel Committee contemplates that the revised requirements will take effect as of the fourth quarter of 2016. The U.S. federal banking agencies have not yet proposed rules implementing the revised requirements.

Policy and Approach - Comparison with Annual and Quarterly Reports, Verification and Sign off

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

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

BNY Mellon internally verifies and approves this Report according to the requirements of a dedicated disclosure policy approved by our Board of Directors. This includes a review by our Disclosure Committee to ensure that external disclosures (including this Report) present the Company’s risk profile comprehensively, subject to information being material and not proprietary or confidential. The disclosure policy addresses internal controls and disclosure controls and procedures associated with the preparation of this Report. One or more senior officers of BNY Mellon must attest that the contents of this Report satisfy the requirements of the Final Capital Rule. In preparing this Report, BNY Mellon may employ concepts of materiality. Information

may be regarded as material for purposes of this Report based on standards similar to those used when making materiality determinations for filing SEC Reports. There are no requirements for external auditing of this Report; however CET1, Tier 1, and Total capital ratios will be tested by external auditors as part of the annual financial statement audit.

Scope of Application

The Bank of New York Mellon Corporation is the ultimate parent company to all members of its consolidated group and is subject to consolidated supervision by the Federal Reserve. The information in this Report is presented on a consolidated basis that includes BNY Mellon and its subsidiaries. A list of our primary subsidiaries can be found in Exhibit 21.1 of our 2014 Form 10-K.

Variable Interest Entities

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

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

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

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

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

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

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

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

BNY Mellon's VIEs generally include certain retail, institutional and alternative investment funds offered to its retail and institutional customers in which it acts as the fund's investment manager. BNY Mellon earns management fees on these funds as well as performance fees in certain funds. It may also provide start-up capital in its new funds. These VIEs are included in the scope of ASU 2010-10, which defers the application of ASU 2009-17 for certain investment funds, and are reviewed for consolidation based on the guidance in ASC 810, Consolidation.

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

As of Dec. 31, 2014, we had \$9.7 billion in assets included in our consolidated financial statements related to VIEs or other investment management funds we are required to consolidate. Approximately \$8.7 billion of these assets were classified as trading assets while the remainder is classified as available for sale securities or other assets. These consolidated investment management funds are risk weighted in accordance with the Final Capital Rules' requirements. The net assets of any consolidated VIE are solely available to settle the liabilities of the VIE and to settle any investors' ownership liquidation requests, including any seed capital invested in the VIE by BNY Mellon.

Additionally, BNY Mellon had \$148 million included in its consolidated financial statements for non-consolidated VIE assets as of Dec. 31, 2014 where we are not the primary beneficiary. These assets relate solely to seed capital or residual interest invested in the VIEs. These assets are risk weighted in accordance with the Final Capital Rules' requirements.

BNY Mellon has non-controlling equity interests in various venture capital investments, strategic joint ventures and trade or clearing associations which are risk weighted according to the Final Capital Rules' requirements. Investments where our percentage of voting stock or equity ownership ranges between

20% to 50% are accounted for under the equity method of accounting. See page 154 of BNY Mellon's 2014 Annual Report for a listing of our most significant equity method investments as of Dec. 31, 2014.

Those equities where our share in the voting stock or equity of the investee is less than 20% are accounted for under the cost method of accounting. See the "Equities Not Subject to Market Risk" section of this Report for a further discussion of these accounting treatments.

BNY Mellon does not have any non-consolidated entities that are deducted from regulatory capital. The minimum regulatory capital requirements of our insurance subsidiaries are deducted for regulatory purposes with 50% deducted from each of Other Tier 1 Capital and Tier 2 Capital.

Restrictions on Transfer of Capital

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

generally pay dividends only out of their current operating earnings.

In general, the amount of dividends that may be paid by our U.S. banking subsidiaries is limited to the lesser of the amounts calculated under a “recent earnings” test and an “undivided profits” test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared and paid by the entity in any calendar year exceeds the current year’s net income combined with the retained net income of the two preceding years, unless the entity obtains prior regulatory approval. Under the undivided profits test, a dividend may not be paid in excess of the entity’s “undivided profits” (generally, accumulated net profits that have not been paid out as dividends or transferred to surplus). The ability of its bank subsidiaries to pay dividends to the Parent may also be affected by various minimum capital requirements for banking organizations.

The payment of dividends also is limited by minimum capital requirements imposed on banks. As of Dec. 31, 2014, BNY Mellon’s bank subsidiaries exceeded these minimum requirements.

Subsequent to Dec. 31, 2014, our bank subsidiaries could declare dividends to the Parent of approximately \$2.0 billion, without the need for a regulatory waiver. In addition, at Dec. 31, 2014, non-bank subsidiaries of the Parent had liquid assets of approximately \$1.4 billion.

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

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

of the amount of the credit, depending on the type of collateral.

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

Surplus of Insurance Subsidiaries and Subsidiary Regulatory Capital

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

BNY Mellon also has insurance subsidiaries which are regulated by various national and state regulatory agencies. Most of these insurance subsidiaries are required to meet minimum capital levels. We have insurance subsidiaries that offer life, accident, health and annuity products. Additionally, we have captive insurance subsidiaries that provide property and casualty insurance coverage for the primary benefit of BNY Mellon and its subsidiaries. As captive insurance subsidiaries, they primarily insure the risks of those BNY Mellon entities related to it through common ownership. The insured businesses pay premiums to the captive insurance subsidiaries in exchange for insurance. Three of our five insurance subsidiaries are underwriters in some capacity and currently only underwrite the risks associated with BNY Mellon and its subsidiaries. As of Dec. 31, 2014, these insurance subsidiaries had \$1.5 billion of aggregate capital surplus in excess of their statutory minimum requirements which is included in the total capital of BNY Mellon.

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

Capital Structure

The following table presents BNY Mellon's capital components, which are set forth in the columns titled "Advanced Approaches – Transitional" at Dec. 31, 2014 and Sept. 30, 2014, described in the Final Capital Rules as phased-in to date.

Basel III capital components (dollars in millions)	Advanced Approaches – Transitional	
	Dec. 31, 2014	Sept. 30, 2014
CET1:		
Common stock (par value)	\$ 13	\$ 13
Additional paid-in capital	24,626	24,499
Retained earnings	17,683	17,670
Accumulated other comprehensive income (loss), net of tax	(1,187)	(819)
Less: Treasury stock	(4,809)	(4,377)
Common equity	<u>36,326</u>	<u>36,986</u>
Goodwill and intangible assets	(17,425)	(17,565)
Net pension fund assets	(17)	(21)
Deferred tax assets	(4)	(3)
Other (a)	5	3
Total CET1	18,885	19,400
Other Tier 1 capital:		
Preferred stock	1,562	1,562
Trust-preferred securities	156	162
Disallowed deferred tax assets	(14)	(14)
Net pension fund assets	(69)	(85)
Other (b)	(17)	(10)
Total Tier 1 capital	20,503	21,015
Tier 2 capital:		
Trust-preferred securities	156	162
Subordinated debt	298	397
Excess of eligible credit reserve over total expected credit losses (up to 0.60% of credit RWA)	13	12
Other (c)	(12)	(6)
Total Tier 2 capital	455	565
Total capital - Advanced Approach	\$ 20,958	\$ 21,580

(a) Includes an adjustment related to gains on cash flow hedges, as well as 20 percent of the debit valuation adjustment ("DVA") at Dec. 31, 2014 and Sept. 30, 2014.

(b) Includes 80 percent of the debit valuation adjustment and 50 percent of the minimum regulatory capital requirements of insurance underwriting subsidiaries at Dec. 31, 2014 and Sept. 30, 2014.

(c) Includes 50 percent of the deduction for the minimum regulatory capital requirements of insurance underwriting subsidiaries at Dec. 31, 2014 and Sept. 30, 2014.

As reflected in the table above, CET1 on a transitional basis was \$18.9 billion at Dec. 31, 2014, a decrease of \$0.5 billion compared with \$19.4 billion at Sept. 30, 2014. The decrease primarily reflects share repurchases, a decrease in foreign currency translation adjustments and the impact of the increase in our pension benefit obligation, partially offset by lower goodwill and intangible deductions.

Preferred Stock

BNY Mellon has 100 million authorized shares of preferred stock with a par value of \$0.01. The table below presents a summary of BNY Mellon's preferred stock issued and outstanding at Dec. 31, 2014.

Preferred stock summary

(dollars in millions, unless otherwise noted)

Series	Description	Liquidation preference per share (in dollars)	Total shares issued and outstanding	Carrying value at Dec. 31, 2014 (a)	Per annum dividend rate
Series A	Noncumulative Perpetual Preferred Stock	\$ 100,000	5,001	\$ 500	Greater of (i) three-month LIBOR plus 0.565% for the related distribution period; or (ii) 4.000%
Series C	Noncumulative Perpetual Preferred Stock	100,000	5,825	568	5.2%
Series D	Noncumulative Perpetual Preferred Stock	100,000	5,000	494	4.50% commencing Dec. 20, 2013 to but excluding June 20, 2023, then a floating rate equal to the three-month LIBOR plus 2.46%
Total			15,826	\$ 1,562	

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

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

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

through the applicable portion of any dividend on the Series C and Series D preferred stock to the holders of record of their respective depositary shares.

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

Terms of the Series A preferred stock, Series C preferred stock, and Series D preferred stock are more fully described in each of their Certificate of Designations, each of which is filed as an Exhibit to Form 10-K for the year ended Dec. 31, 2014.

Trust-preferred Securities

In accordance with the Final Capital Rules, half of the amount of the following trust preferred securities are included in our transitional Tier I capital and the other half is included in Tier 2 Capital at Dec. 31, 2014.

Trust preferred securities at Dec. 31, 2014 (dollar amounts in millions)	Amount of junior subordinated debentures	Interest rate	Assets of trust	(a)	Due date	Call date	Call price
MEL Capital III (b)	\$ 312	6.37%	\$ 309		2036	2016	Par
MEL Capital IV	—	—	500		—	—	—
Total	\$ 312		\$ 809				

(a) Represents junior subordinated deferrable interest debentures of BNY Mellon in the case of MEL Capital III and BNY Mellon's Series A preferred stock in the case of MEL Capital IV.

(b) Amount was translated from Sterling into U.S. dollars on a basis of U.S. \$1.56 to £1, the rate of exchange on Dec. 31, 2014.

Mellon Capital III, a Delaware statutory trust owned by BNY Mellon, issued trust preferred securities in 2006. At Dec. 31, 2014, the sole assets of Mellon Capital III are junior subordinated debentures of BNY Mellon with maturities and interest rates that match the trust preferred securities. BNY Mellon's obligations provide a full and unconditional guarantee of payment of distributions and other amounts due on the trust preferred securities. The guarantee does not guarantee payment of distributions or other amounts due when Mellon Capital III does not have funds available to make such payments.

Mellon Capital IV, a Delaware statutory trust owned by BNY Mellon, issued trust preferred securities in June 2007. The sole assets of Mellon Cap IV originally were junior subordinated debentures and a stock purchase contract for preferred stock. Through a remarketing in May 2012, the junior subordinated debentures issued by BNY Mellon and held by Mellon Capital IV were sold to third party investors and then exchanged for BNY Mellon's senior notes, which were sold in a public offering. The proceeds of the sale of the senior notes were used to fund the purchase by Mellon Capital IV of \$500 million of BNY Mellon's Series A preferred stock, which was issued on June 20, 2012. At Dec. 31, 2014, the Series A preferred stock was the sole asset of Mellon Capital IV.

At Dec. 31, 2014, we had \$312 million of trust preferred securities outstanding, of which 50% currently qualify as Tier 1 capital and 50% as Tier 2 capital. Under the Final Capital Rules, these trust preferred securities may continue to be included in Tier 1 capital up to the following percentages: calendar year 2014 - 50%; calendar year 2015 - 25%; and calendar year 2016 and beyond - 0%. Certain amounts of trust preferred securities that are excluded from additional Tier 1 capital due to this phase-in schedule may be eligible for inclusion in Tier 2 capital, pursuant to the standards established in the Final Capital Rules. Any decision to take action with respect to these trust preferred securities will be based on several considerations including interest rates and the availability of cash and capital.

Qualifying Subordinated Debt

As of Dec. 31, 2014, \$298 million of subordinated debt is included as Tier 2 regulatory capital. Regulatory capital treatment requires capital to be discounted on a straight-line basis over the final five years of maturity. For accounting purposes, the capital instruments below are included in long-term debt.

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

Terms and Conditions of Qualifying Subordinated Debt – Dec. 31, 2014 <i>(dollars in millions)</i>	Tier 2 Regulatory Capital	Carrying Value	Rate	Issue	Maturity	Callable
BNY Mellon Corporation	\$ 100	\$ 250	5.50%	SD	Dec-2017	No
BNY Mellon Corporation	—	500	4.95	SMTN	Mar-2015	No
The Bank of New York Mellon	50	250	5.45	SD	Apr-2016	No
Mellon Funding Corporation	148	246	5.50	SD	Nov-2018	No
Total Qualifying Subordinated Debt	\$ 298	\$ 1,246				

SD – Subordinated debt.

SMTN – Subordinated medium term notes.

Capital Adequacy*Capital Management*

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

Our Capital Management Policy sets forth our capital management principles with respect to capital planning, capital usage and capital actions based on a continual assessment of risk and business factors. It also sets forth the governance process used to make such decisions and the factors that we consider

when developing our capital plan and determining when capital actions are appropriate. Any updates to this policy must be approved by both our Asset and Liability Management Committee ("ALCO") and the Board of Directors or a designated committee of the Board.

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

When developing the capital plan, BNY Mellon considers the requirements under each of the banking supervision accords set forth by the Basel Committee (Basel I and Basel III.) BNY Mellon continually monitors our capital position and ensures that any contemplated capital actions would not limit our ability to meet the capital requirements under both capital regimes. Management monitors progress under the capital plan on a monthly basis. Updates to the projections of capital levels and ratios are

presented to senior management at least once a month at the meetings of ALCO.

Economic Capital Required

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

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

Capital Planning and Stress Testing

BNY Mellon's capital distributions are subject to Federal Reserve oversight. The major component of that oversight is the Federal Reserve's CCAR, implementing its capital plan rules. These rules require BHCs having \$50 billion or more in total consolidated assets (including BNY Mellon) to submit annual capital plans to their respective Federal Reserve Bank. We are also required to collect and report certain related data on a quarterly basis to allow the Federal Reserve to monitor progress against the annual capital plans. BNY Mellon and other affected BHCs may pay dividends, repurchase stock, and make other capital distributions only in accordance with a capital plan that has been reviewed

by the Federal Reserve and as to which the Federal Reserve has not objected. The Federal Reserve may object to a capital plan if the plan does not show that the covered BHC will meet, for each quarter throughout the nine-quarter planning horizon covered by the capital plan, all minimum regulatory capital ratios under applicable capital rules as in effect for that quarter and maintain a Tier 1 common to risk-weighted assets ratio of at least 5% calculated under existing general risk-based capital rules as currently in effect, in each case on a *pro forma* basis under the base case and stressed scenarios (including a severely adverse scenario provided by the Federal Reserve). The capital plan rules also stipulate that a covered BHC may not make a capital distribution unless after giving effect to the distribution it will meet all minimum regulatory capital ratios and maintain a Tier 1 common to risk-weighted assets ratio of at least 5%.

The purpose of CCAR is to ensure that these BHCs have robust, forward-looking capital planning processes that account for their unique risks and that permit continued operations during times of economic and financial stress. The CCAR rule, consistent with prior Federal Reserve Board guidance, provides that capital plans contemplating dividend payout ratios exceeding 30% of projected after-tax net income will receive particularly close scrutiny. BNY Mellon's common stock dividend payout ratio was 31% for 2014, or 25% after adjusting for litigation expense.

In October 2014, the Federal Reserve revised aspects of its rules pertaining to CCAR and Dodd Frank Act stress tests ("DFAST"). These revisions include, among other changes, proposals to limit the ability of a BHC subject to CCAR to make capital distributions in a given quarter if its actual capital issuances in that quarter are less than the amount indicated in its capital plan and to eliminate the need to obtain prior approval for accretive issuances of capital instruments that would qualify for inclusion in the numerator of regulatory capital ratios. In addition, these rules will revise the timeline for the submission of capital plans and stress tests for BHCs subject to CCAR. Under these rules, for the 2015 capital plan cycle, these BHCs were required to submit capital plans on or before Jan. 5, 2015, unchanged from prior years. For subsequent cycles, beginning in 2016, BHCs will be required to submit their capital plans and stress testing results to the Federal Reserve one quarter later (on or before April 5).

In order to provide a transition to this timing, the Federal Reserve's objection or non-objection to capital plans submitted in January 2015, including BNY Mellon's, will cover a five-quarter period commencing with the second quarter of 2015 and extending through the second quarter of 2016. The objection or non-objection will switch to a four-quarter period in years thereafter.

We submitted our 2015 capital plan to the Federal Reserve on Jan. 5, 2015. The Federal Reserve has indicated that it expects to publish either its objection or non-objection to the capital plan and proposed capital actions, such as dividend payments and share repurchases, in March 2015. We anticipate announcing our 2015 capital plan shortly thereafter.

In addition to the CCAR stress testing requirements, Federal Reserve regulations also include DFAST, which were adopted in final form in October 2012. The CCAR and DFAST requirements substantially overlap, and the Federal Reserve implements them at the BHC level on a coordinated basis. Under these DFAST regulations, we are required to undergo regulatory stress tests conducted by the Federal Reserve annually, and to conduct our own internal stress tests pursuant to regulatory requirements twice annually. In addition, The Bank of New York Mellon is required to conduct its own annual internal stress test (although this bank is permitted to combine certain reporting and disclosure of its stress test results with the results of BNY Mellon). These requirements involve both company-run and supervisory-run testing of capital under various scenarios, including baseline, adverse and severely adverse scenarios provided by the appropriate banking regulator. Results from our annual company-run stress tests are reported to the appropriate regulators and published. We published the results of our most recent company-run stress test on March 26, 2014, and the results of our company-run mid-year stress test on Sept. 15, 2014.

It is the policy of the Company to perform Enterprise-wide Stress Testing at regular intervals as part of its Internal Capital Adequacy Assessment Process ("ICAAP"). Additionally, the Company performs an analysis of capital adequacy in a stressed environment in its Enterprise-Wide Stress Test Framework, as required by the enhanced prudential standards issued pursuant to the Dodd-Frank Act.

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

Risk-weighted Assets

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

Basel III Risk-weighted assets (in millions)	Advanced Approaches – Transitional	
	Dec. 31, 2014	Sept. 30, 2014
Wholesale exposures	\$ 77,942	\$ 76,864
Retail exposures:		
Residential mortgage	1,005	1,304
Other retail	200	230
Securitization exposures	10,911	11,140
Cleared transactions	553	565
Equity exposures (a)	5,126	4,767
Other assets	12,845	12,867
Total credit RWA	108,582	107,737
Total credit RWA x 1.06 (b)	115,097	114,201
Credit valuation adjustment (“CVA”)	5,025	5,063
Market risk:		
Non specific	1,386	1,388
Standardized approach for specific risk	1,660	2,100
Total market risk	3,046	3,488
Operational risk	45,112	47,500
Total RWA	\$ 168,280	\$ 170,252

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

(b) Gross-up of 6% applies under the Advanced Approach.

Our Advanced Approaches RWA under the Transitional Approach totaled \$168.3 billion at Dec. 31, 2014, a decrease of \$2.0 billion compared with \$170.3 billion at Sept. 30, 2014. The decrease primarily reflects a decline in operational risk due to a decrease in loss frequency of internal loss events, partially offset by an increase in credit RWA primarily due to jumbo mortgages being recategorized from retail to wholesale. The jumbo mortgage wholesale RWA impact was an increase of \$2.7 billion while retail declined by \$0.3 billion. Credit risk-weighted assets totaled \$108.6 billion and included wholesale exposures of \$77.9 billion. Wholesale exposures include corporate, bank, sovereign, commercial real-estate secured loans, OTC derivatives, repo-style and margin lending transactions and represents 72% of our total credit risk-weighted assets at Dec. 31, 2014.

The remaining credit related risk exposures included securitization exposures of \$10.9 billion, cleared

transactions of \$0.6 billion, equities of \$5.1 billion, retail of \$1.2 billion, and other assets not included in a defined exposure category of \$12.8 billion.

The remaining Advanced Approaches RWA at Dec. 31, 2014 included operational risk of \$45.1 billion, market risk of \$3.0 billion, and a CVA for derivative exposures intended to capture changes in credit spreads applicable to BNY Mellon's counterparties short of an actual default of \$5.0 billion.

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

As of Dec. 31, 2014, BNY Mellon and our bank

subsidiaries were considered “well capitalized” on the basis of the Tier 1 and Total capital to risk-weighted assets ratios and the leverage capital ratio (Tier 1 capital to quarterly average assets as defined for regulatory purposes).

The following table provide RWA and risk-based capital ratios for our holding company and for our two largest depository institution subsidiaries. At Dec. 31, 2014 our CET1 ratio calculated under the Final Capital Rules’ Advanced Approaches was 11.2%, on a transitional basis.

Basel III risk-based capital ratios- (Advanced Approach)	Dec. 31, 2014			
	RWA	CET1	Tier 1	Total
<i>(dollar amounts in millions)</i>				
BHC:				
The Bank of New York Mellon Corporation	\$ 168,280	11.2%	12.2%	12.5%
Depository Institution Subsidiaries:				
The Bank of New York Mellon	118,235	12.5	13.0	13.2
BNY Mellon, N.A.	8,919	14.3	14.3	14.5

Credit Risk: General Disclosures

General Risk Management - Governance

Risk management and oversight begins with the Board of Directors and two key Board committees: the Risk Committee and the Audit Committee.

The Risk Committee is comprised entirely of independent directors and meets on a regular basis to review and assess the control processes with respect to the Company’s inherent risks. They also review and assess the risk management activities of the Company and the Company’s fiduciary risk policies and activities. Policy formulation and day-to-day oversight of the Risk Management Framework is delegated to the Chief Risk Officer, who, together with the Chief Auditor and Chief Compliance Officer, helps ensure an effective risk management governance structure. The roles and responsibilities of the Risk Committee are described in more detail in its charter, a copy of which is available on our website, www.bnymellon.com.

The Audit Committee is also comprised entirely of independent directors, all of whom are financially literate within the meaning of the NYSE listing standards, and two of whom have been determined to be an audit committee financial expert as set out in the rules and regulations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), with accounting or related financial management expertise within the meaning of the NYSE listing standards. All members of the Audit Committee have been determined to have banking

and financial management expertise within the meaning of the FDIC rules. The Audit Committee meets on a regular basis to perform an oversight review of the integrity of the financial statements and financial reporting process, compliance with legal and regulatory requirements, our independent registered public accountant’s qualifications and independence, and the performance of our registered public accountant and internal audit function. The Audit Committee also reviews management’s assessment of the adequacy of internal controls. The functions of the Audit Committee are described in more detail in its charter, a copy of which is available on our website, www.bnymellon.com.

Risk Management - Structure

The Senior Risk Management Committee (“SRMC”) is the most senior management body responsible for ensuring that emerging risks are weighed against the corporate risk appetite and that any material amendments to the risk appetite statement are properly vetted and recommended to the Executive Committee and the Board for approval. The SRMC also reviews any material breaches to our risk appetite and approves action plans required to remediate the issue. SRMC provides oversight for the risk management, compliance and ethics framework. The Chief Executive Officer, Chief Risk Officer and Chief Financial Officer are among SRMC’s members.

Risk appetite statement

BNY Mellon defines risk appetite as the level of risk it is normally willing to accept while pursuing the interest of our major stakeholders, including our clients, shareholders, employees and regulators. The Company has adopted the following as its risk appetite statement: Risk-taking is a fundamental characteristic of providing financial services and arises in every transaction we undertake. Our risk appetite is driven by the fact our Company is the global leader in providing services that enable the management and servicing of financial assets in more than 100 markets worldwide and has been designated by international regulators as one of the 30 Global Systemically Important Financial Institutions (“G-SIFIs”). This designation recognizes our fundamental importance to the health and operation of the global capital markets and carries with it a responsibility to maintain the highest standards of excellence. As a result, we are committed to maintaining a strong balance sheet throughout market cycles and to delivering operational excellence to meet the expectations of our major stakeholders, including our clients, shareholders, employees and regulators. The balance sheet will be characterized as liquid, with strong asset quality, ready access to external funding sources at competitive rates and a strong capital structure that supports our risk-taking activities and is adequate to absorb potential losses. These characteristics support our goal of having superior debt ratings among the best within our peer group, which comprises other trust and investment firms. To that end, the Company’s Risk Management Framework has been designed to:

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

Primary risk types

The understanding, identification and management of risk are essential elements for the successful

management of BNY Mellon. Our primary risk categories are:

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

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

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

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

Credit Risk Management

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

We manage credit risk at both the individual exposure level as well as the portfolio level. Credit risk at the individual exposure level is managed through our credit approval system and involves four approval levels up to and including the Chief Risk Officer of

the Company. The requisite approvals are based upon the size and relative risk of the aggregate exposure under consideration. The Credit Risk Group is responsible for approving the size, terms and maturity of all credit exposures as well as the ongoing monitoring of the creditworthiness of the counterparty. In addition, they are responsible for assigning and maintaining the risk ratings on each exposure.

Credit risk management at the portfolio level is supported by the Basel & Capital Adequacy Group, within the Risk Management and Compliance Sector. The Basel & Capital Adequacy Group is responsible for calculating two fundamental credit measures. First, we project a statistically probable credit loss, used to help determine the appropriate loan loss reserve and to measure customer profitability. Credit loss considers three basic components: the estimated size of the exposure whenever default might occur, the probability of default before maturity and the severity of the loss we would incur, commonly called “loss given default.” For institutional lending, where most of our credit risk is created, unfunded commitments are assigned a usage given default percentage. Borrowers/Counterparties are assigned ratings by Credit Portfolio Managers (“CPMs”) and the Chief Credit Officer (“CCO”) on an 18-grade scale, which translate to a scaled probability of default. Additionally, transactions are assigned loss-given-default ratings (on a 7-grade scale) that reflect the transactions’ structures including the effects of guarantees, collateral, and relative seniority of position.

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

The Basel & Capital Adequacy Group is responsible for the calculation methodologies and the estimates of

the inputs used in those methodologies for the determination of expected loss and economic capital. These methodologies and input estimates are regularly evaluated to ensure their appropriateness and accuracy. As new techniques and data become available, Basel & Capital Adequacy attempts to incorporate, where appropriate, those techniques or data.

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

Risk Measurement & Reporting Systems

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

Credit Risk Exposure

The following tables detail total credit exposure before the effect of credit risk mitigation (such as collateral and netting) and distribute the exposure by geographic region, counterparty and remaining contractual maturity. In order to remove the effects of credit risk mitigants, we have grossed up exposures for the following product types: OTC derivatives, margin loans and repurchase agreements (“repo”)/reverse repurchase agreement (“reverse repo”) transactions. The cumulative effect of credit risk mitigants was \$42.3 billion as of Dec. 31, 2014. Credit exposure is presented using EAD for all tables presented below. In addition, we have off-balance sheet credit risks associated with securities lending indemnification and indemnification for securities for which BNY Mellon acts as an agent on behalf of CIBC Mellon clients, that are excluded from the table below of \$304 billion and \$64 billion, respectively at Dec. 31, 2014. For more information, see Note 22 in our 2014 Form10-K Report.

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

<i>(in millions)</i>	Dec. 31, 2014	4Q Average (b)
Deposits with banks, securities and loans	\$ 276,137	\$ 277,375
Unused commitments (c)	26,442	26,258
OTC derivatives	33,305	33,553
Repo-style transactions and margin lending	55,289	52,615
Total credit risk exposure (d)	\$ 391,173	\$ 389,801

(a) Credit risk exposure represents exposure before the effect of credit risk mitigation such as collateral, guarantees and netting.

(b) Calculated on a simple average of the beginning and ending quarterly balances.

(c) Includes unused commitments, commercial letters of credit (“L/C”) and standby L/C’s.

(d) Excludes equities and securitizations.

As reflected in the table above, total EAD was \$391.2 billion at Dec. 31, 2014, primarily consisting of:

- Deposits with banks, securities and loans exposure was \$276.1 billion consisting primarily of federal reserve bank placements, debt securities, interest bearing placements, pass through mortgage backed securities (“MBS”), non-pass through MBS, other loans, real estate loans, financial institution loans, collateralized loan obligations, placements and overdrafts.
- OTC derivatives exposure was \$33.3 billion and consists primarily of interest rate contracts and foreign exchange contracts.
- Repo-style transactions and margin lending exposure was \$55.3 billion and primarily consists of margin and broker dealer loans, federal funds purchased, reverse repos, federal funds sold and repos.

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

Credit risk exposure before effect of credit risk mitigation- by geographic region (a)

at Dec. 31, 2014

<i>(in millions)</i>	Americas	EMEA	APAC	Total
Deposits with banks, securities and loans	\$ 215,550	\$ 43,911	\$ 16,676	\$ 276,137
Unused commitments (c)	23,960	2,186	296	26,442
OTC derivatives	16,946	14,466	1,893	33,305
Repo-style transactions and margin lending	51,682	106	3,501	55,289
Total credit risk exposure (d)	\$ 308,138	\$ 60,669	\$ 22,366	\$ 391,173

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

Exposures were primarily located in the Americas and EMEA regions at Dec. 31, 2014.

- EAD in the Americas totaled \$308.1 billion, primarily consisting of federal reserve bank placements, debt securities, pass through MBS, margin loans, non-pass through MBS, federal funds purchased, reverse repos, federal funds sold, repos, real estate loans, other loans, collateralized loan obligations, interest bearing deposits and overdrafts.
- EAD in EMEA totaled \$60.7 billion and included interest bearing deposits, foreign exchange contracts and interest rate contracts.

The following table distributes credit exposure by counterparty type.

**Credit risk exposure before effect of credit risk mitigation- by counterparty type (a)
at Dec. 31, 2014**

<i>(in millions)</i>	Corporate	Sovereign	Bank	Real Estate (e)	Retail	Total
Deposits with banks, securities and loans	\$ 88,825	\$ 149,795	\$ 32,711	\$ 1,757	\$ 3,049	\$ 276,137
Unused commitments (c)	23,880	93	1,939	285	245	26,442
OTC derivatives	13,517	718	19,070	—	—	33,305
Repo-style transactions and margin lending	49,516	—	5,773	—	—	55,289
Total credit risk exposure (d)	\$ 175,738	\$ 150,606	\$ 59,493	\$ 2,042	\$ 3,294	\$ 391,173

Note: Please see footnotes (a) through (d) to the table titled "Credit risk exposure before effect of credit risk mitigation- quarter end and average" above.

(e) Real estate includes High-Volatility Commercial Real Estate ("HVCRE") and Income Producing Real Estate ("IPRE").

Exposures by counterparty were primarily in corporate, sovereign and bank counterparties at Dec. 31, 2014.

- Corporate exposures were \$175.7 billion and consisted of pass through MBS, margin loans, non-pass through MBS, federal funds purchased, reverse repos, debt securities, other loans and collateralized loan obligations.
- Exposures to sovereigns totaled \$150.6 billion and consisted primarily of federal reserve placements, debt securities, and interest bearing deposits.
- Exposures to banks were \$59.5 billion and were primarily made up of interest bearing deposits, interest rate contracts, loans with financial institutions and foreign exchange contracts.

The following table distributes credit exposure by remaining contractual maturity.

**Credit risk exposure before effect of risk mitigation by remaining contractual maturity (a)
at Dec. 31, 2014**

<i>(in millions)</i>	Within 1 year	Between 1-5 years	After 5 years	Total
Deposits with banks, securities and loans	\$ 151,233	\$ 50,823	\$ 74,081	\$ 276,137
Unused commitments (c)	9,628	16,287	527	26,442
OTC derivatives	15,183	6,018	12,104	33,305
Repo-style transactions and margin lending	51,316	3,973	—	55,289
Total credit risk exposure (d)	\$ 227,360	\$ 77,101	\$ 86,712	\$ 391,173

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

As reflected in the table above, the \$391.2 billion in total EAD at Dec. 31, 2014 consisted of Federal Reserve placements, interest bearing deposits, margin lending, other loans, federal funds purchased, reverse repos, federal funds sold, repos, foreign exchange contracts, financial institution loans, debt securities and overdrafts occurring in the “within 1 year” maturity band.

Past Due/Nonaccrual/Impaired Loans

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

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

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

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

loan secured by residential real estate may be restored to accrual status only when none of its principal and interest is due and unpaid, and the Company expects repayment of the remaining contractual principal and interest.

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

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

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

Allowance for Loan Losses and Allowance for Lending-Related Commitments

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

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

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

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

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

Our lending is primarily to institutional customers. As a result, our loans are generally larger than \$1 million. Therefore, the first element, impaired credits, is based on individual analysis of all impaired loans of \$1 million or greater. The allowance is measured by the difference between the recorded value of impaired loans and their impaired value.

Impaired value is either the present value of the expected future cash flows from the borrower, the market value of the loan, or the fair value of the collateral, if the loan is collateral dependent.

The second element, higher risk-rated credits and pass-rated credits, is based on our probable loss model. Individual credit analyses are performed on such loans before being assigned a credit rating. All borrowers are assigned to pools based on their credit rating. The probable loss inherent in each loan in a pool incorporates the borrower's credit rating, loss given default rating and maturity. The loss given default incorporates a recovery expectation and an estimate of the use of the facility at default (usage given default). The borrower's probability of default is derived from the associated credit rating. Borrower ratings are reviewed at least annually and are periodically mapped to third-party databases, including rating agency and default and recovery databases, to ensure ongoing consistency and validity. Higher risk-rated credits are reviewed quarterly. In the fourth quarter of 2014, we adopted the probable loss model to calculate the allowance for the Wealth Management mortgage portfolio which resulted in a \$2 million increase in the allowance for this portfolio. In prior periods, the allowance was calculated using a delinquency pool approach as described below in the third element for the allowance for residential mortgage loans.

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

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

Internal risk factors:

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

Environmental risk factors:

- U.S. non-investment grade default rate;
- Unemployment rate; and
- Change in real GDP.

To the extent actual results differ from forecasts or management's judgment, the allowance for credit losses may be greater or less than future charge-offs. The allocation of the allowance for credit losses is inherently judgmental, and the entire allowance for credit losses is available to absorb credit losses regardless of the nature of the loss.

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

Impaired, past due and nonaccrual loans at Dec. 31, 2014

(in millions)	Impaired loans with an allowance	Impaired loans without an allowance	Days past due and still accruing			Total past due	Nonaccrual (a)
			30-59	60-89	>90		
Domestic							
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial real estate	—	1	79	—	—	79	1
Financial institutions	—	—	—	—	—	—	—
Wealth management loans and mortgages	6	2	45	—	1	46	12
Other residential mortgages	—	—	23	3	5	31	112
Total domestic	6	3	147	3	6	156	125
Foreign							
Total	\$ 6	\$ 3	\$ 147	\$ 3	\$ 6	\$ 156	\$ 125

(a) Loans of consolidated investment management funds are not part of BNY Mellon's loan portfolio. Included in the loans of consolidated investment management funds are nonperforming loans of \$53 million at Dec. 31, 2014. These loans are recorded at fair value and therefore do not impact the provision for credit losses and allowance for loan losses, and accordingly are excluded from the table above.

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

Allowance for credit losses activity for the quarter ended December 31, 2014

(in millions)	Commercial	Commercial real estate	Financial institutions	Lease financings	Wealth management loans and mortgages	Other residential mortgages	All Other	Foreign	Total
Beginning balance	\$ 71	\$ 47	\$ 25	\$ 34	\$ 22	\$ 48	\$ —	\$ 41	\$ 288
Charge-offs	(8)	(2)	—	—	—	—	—	—	(10)
Recoveries	—	—	1	—	—	—	—	—	1
Net (charge-offs) recoveries	(8)	(2)	1	—	—	—	—	—	(9)
Provision	(3)	5	5	(2)	—	(7)	—	3	1
Ending balance	\$ 60	\$ 50	\$ 31	\$ 32	\$ 22	\$ 41	\$ —	\$ 44	\$ 280

Allowance for credit losses activity for the year ended Dec. 31, 2014

<i>(in millions)</i>	Commercial	Commercial real estate	Financial institutions	Lease financings	Wealth management loans and mortgages	Other residential mortgages	All Other	Foreign	Total
Beginning balance	\$ 83	\$ 41	\$ 49	\$ 37	\$ 24	\$ 54	\$ —	\$ 56	\$ 344
Charge-offs	(12)	(2)	—	—	(1)	(2)	—	(3)	(20)
Recoveries	1	—	1	—	—	2	—	—	4
Net (charge-offs) recoveries	(11)	(2)	1	—	(1)	—	—	(3)	(16)
Provision	(12)	11	(19)	(5)	(1)	(13)	—	(9)	(48)
Ending balance	\$ 60	\$ 50	\$ 31	\$ 32	\$ 22	\$ 41	\$ —	\$ 44	\$ 280
Allowance for:									
Loans losses	\$ 17	\$ 32	\$ 17	\$ 32	\$ 17	\$ 41	\$ —	\$ 35	\$ 191
Lending-related commitments	43	18	14	—	5	—	—	9	89
Individually evaluated for impairment:									
Loan balance	\$ —	\$ —	\$ —	\$ —	\$ 8	\$ —	\$ —	\$ —	\$ 8
Allowance for loan losses	—	—	—	—	1	—	—	—	1
Collectively evaluated for impairment:									
Loan balance	\$ 1,390	\$ 2,503	\$ 5,603	\$ 1,282	\$ 11,087	\$ 1,222	\$22,495 ^(a)	\$13,521	\$ 59,103
Allowance for loan losses	17	32	17	32	16	41	—	35	\$ 190

(a) Includes \$1,348 million of domestic overdrafts, \$20,034 million of margin loans and \$1,113 million of other loans at Dec. 31, 2014.

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

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

Overview of Wholesale Internal Rating System

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

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

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

Ratings Assignment Process

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

Credit underwriters propose ratings on each deal, after which a division executive within risk management reviews and approves the final ratings.

Ratings are continually monitored for accuracy in the ordinary course of business as prescribed in the Company's Risk Policy. All borrowers with credit exposure must be re-rated annually.

Borrower Rating Process

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

Facility Rating Process

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

Ratings Migration

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

Credit Risk Governance

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

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

Quantification of Wholesale Risk Parameters, Summary of Advanced Approaches Requirements and Company Implementation

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

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

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

Quantification of PD

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

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

Borrower Ratings Basis Groups

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

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

PD Assignment

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

Quantification of LGD

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

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

Quantification of EAD

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

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

Uses of Parameter Quantification

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

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

Wholesale exposures at Dec. 31, 2014

(dollar amounts in millions)	EAD	Weighted Average PD (a)	Weighted Average LGD (a)	Weighted Average RW (a)	Undrawn Amount (b)	Weighted Average CCF (c)
General Wholesale						
0.00 to <0.15%	\$ 274,565	0.04%	36.78%	14.18%	\$ 33,188	63.29%
0.50 to <0.75%	9,465	0.56	36.27	61.47	3,614	72.59
0.75 to <1.35%	5,399	0.90	49.10	99.65	2,018	92.67
2.50 to <5.50%	2,041	2.66	50.55	149.35	587	83.91
5.50 to <10.00%	7,606	8.25	46.98	189.64	118	92.21
20.00 to <100.00%	188	39.29	35.36	185.25	96	99.67
100.00% (default)	21	100.00	42.42	100.00	3	99.98
General Wholesale subtotal	299,285	0.33	37.34	22.71	39,624	66.12
OTC Derivatives, Repo-style Transactions and Margin Loans						
0.00 to <0.03%	\$ 171	0.02%	54.00%	17.38%	\$ —	—%
0.03 to <0.10%	15,665	0.05	52.96	13.00	—	—
0.10 to <0.15%	28,280	0.11	53.40	22.08	—	—
0.50 to <0.75%	1,012	0.56	41.75	49.29	—	—
0.75 to <1.35%	880	0.90	50.74	85.18	—	—
2.50 to <5.50%	152	2.78	37.73	117.39	—	—
5.50 to <10.00%	14	6.28	53.71	170.82	—	—
10.00 to <100.00%	67	39.29	38.43	196.53	—	—
Eligible Margin Loans- 300% RW	25	300.00	—	300.00	—	—
OTC Derivatives, Repo-style Transactions and Margin Loans Subtotal	46,266	0.18	52.85	21.55	—	—
Total	\$ 345,551	0.31%	39.42%	22.56%	\$ 39,624	66.12%

(a) Weighted averages have been weighted by the sum of EAD within each of the PD bands.

(b) Undrawn amount is defined as the difference between the drawn balance and the limit.

(c) Weighted average credit conversion factor ("CCF") has been weighted by the sum of undrawn amount within each of the PD bands.

At Dec. 31, 2014, wholesale exposures were \$345.6 billion. The majority of the general wholesale exposures occurred in PD band 0.00 to less than 0.15%. These exposures primarily consist of Federal Reserve Bank ("FRB") placements, interest bearing placements, MBS pass through securities, US treasury and sovereign debt securities, MBS non-pass through securities, unused loan commitments, other loans, financial standby letters of credit and loans with financial institutions. OTC Derivatives, repo-style transactions and margin loans consisted of primarily

exposures to securities lending transactions, foreign exchange contracts, equity derivative contracts, and interest rate contracts.

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

Corporate exposures at Dec. 31, 2014

<i>(dollar amounts in millions)</i>	EAD	Weighted Average PD (a)	Weighted Average LGD (a)	Weighted Average RW (a)	Undrawn Amount (b)	Weighted Average CCF (c)
0.00 to <0.15%	\$ 93,633	0.06%	42.47%	25.33%	\$ 30,767	62.18%
0.50 to <0.75%	6,974	0.56	32.73	60.28	3,493	72.36
0.75 to <1.35%	2,893	0.90	45.79	101.67	1,791	92.84
2.50 to <5.50%	1,642	2.66	50.05	154.15	493	84.45
5.50 to <10.00%	7,465	8.27	46.98	190.10	94	99.46
20.00 to <100.00%	81	39.29	33.38	171.50	47	100.00
100.00% (default)	17	100.00	40.44	100.00	3	100.00
Subtotal	\$ 112,705 (d)	0.74%	42.35%	42.36%	\$ 36,688	65.09%

(d) Total corporate EAD as of Dec. 31, 2014 increased \$6.8 billion from \$105.9 billion at Sept. 30, 2014, \$5.4 billion of which is due to the reclassification of jumbo mortgages from residential mortgages to wholesale corporate exposures. The majority of the jumbo mortgages are within the PD band 0.00 to less than 0.15%

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

Corporate exposures were \$112.7 billion at Dec. 31, 2014. The majority of the exposures occurred in PD band 0.00 to less than 0.15%. Exposures within this PD band totaled \$93.6 billion or 83% of total corporate exposures. These exposures are primarily made up of pass through MBS, non-pass through MBS, unused loan commitments, debt securities, and other loans.

Sovereign exposures at Dec. 31, 2014

<i>(dollar amounts in millions)</i>	EAD	Weighted Average PD (a)	Weighted Average LGD (a)	Weighted Average RW (a)	Undrawn Amount (b)	Weighted Average CCF (c)
0.00 to <0.15%	\$ 148,839	0.03%	30.77%	5.86%	\$ 163	56.66%
0.50 to <0.75%	1,045	0.56	40.90	59.40	—	—
5.50 to <10.00%	1	8.85	38.00	131.29	—	—
20.00 to < 100.00%	3	39.29	38.00	188.89	—	—
Subtotal	\$ 149,888	0.03%	30.84%	6.24%	\$ 163	56.66%

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

Sovereign exposures were \$149.9 billion at Dec. 31, 2014. Nearly all of the exposures occurred in PD band 0.00 to less than 0.15%. These exposures are primarily made up of FRB placements, interest bearing placements, US treasury securities and sovereign government debt securities.

Bank exposures at Dec. 31, 2014

<i>(dollar amounts in millions)</i>	EAD	Weighted Average PD (a)	Weighted Average LGD (a)	Weighted Average RW (a)	Undrawn Amount (b)	Weighted Average CCF (c)
0.00 to <0.15%	\$ 31,033	0.09%	48.25%	19.88%	\$ 2,136	80.17%
0.50 to <0.75%	1,161	0.56	50.71	67.79	75	93.40
0.75 to <1.35%	1,956	0.90	53.68	97.05	87	92.18
2.50 to <5.50%	262	2.67	52.11	127.53	15	86.13
5.50 to <10.00%	140	7.03	47.05	165.52	24	63.50
20.00 to <100.00%	97	39.29	36.10	190.52	49	99.36
100% (default)	1	100.00	47.00	100.00	—	—
Subtotal	\$ 34,650	0.31%	48.63%	27.72%	\$ 2,386	81.29%

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

Bank exposures were \$34.7 billion at Dec. 31, 2014. The majority of the exposures occurred in PD band 0.00 to less than 0.15%. Exposures within this PD band totaled \$31.0 billion or 89% of total bank exposures. These exposures are primarily made up of interest bearing deposits and loans with financial institutions.

Real Estate exposures at Dec. 31, 2014

<i>(dollar amounts in millions)</i>	EAD	Weighted Average PD (a)	Weighted Average LGD (a)	Weighted Average RW (a)	Undrawn Amount (b)	Weighted Average CCF (c)
0.00 to <0.15%	\$ 1,060	0.09%	42.58%	31.07%	\$ 122	56.54%
0.50 to <0.75%	285	0.56	47.16	72.22	46	56.54
0.75 to <1.35%	550	0.90	50.24	98.27	140	90.79
2.50 to <5.50%	137	2.56	53.60	133.53	79	80.10
20.00 to <100.00%	7	39.29	47.00	269.77	—	—
100.00% (default)	3	100.00	53.98	100.00	—	49.01
Subtotal	\$ 2,042	0.81%	46.06%	62.71%	\$ 387	73.74%

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

Real estate exposures were \$2.0 billion at Dec. 31, 2014. The majority of the exposures occurred in PD band 0.00 to less than 0.15% and in PD band 0.75 to less than 1.35%.

Retail quantification

Retail Segmentation Process

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

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

- 1) **Exposures Secured by Residential Mortgages** – include primarily mortgages (first and subsequent) on one-to-four-family residential properties.
- 2) **Qualifying Revolving Exposures (QRE)** – include revolving exposures unconditionally cancelable by the Company, with total exposure less than \$100,000.
- 3) **Other Retail Exposures** – include exposures where BNY Mellon, N.A. provides consumer and non-consumer lines of credit to certain unaffiliated third-party borrowers that are secured by securities owned by the borrowers or certain unaffiliated-third party guarantors.

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

Retail Parameters

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

Defaulted Retail Exposures

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

The following table presents BNY Mellon's retail exposures.

Retail Exposures by PD at Dec. 31, 2014						
<i>(dollar amounts in millions)</i>	EAD	Weighted Average PD (a)	Weighted Average LGD (a)	Weighted Average RW (a)		Undrawn Amount (b)
Residential mortgage						
0.10 to < 0.15%	\$ 650	0.13 %	29.88 %	8.95 %	\$	123
0.25 to < 0.35%	21	0.25	48.57	22.99		—
0.75 to < 1.35%	250	0.81	36.80	40.04		—
1.35 to < 2.50%	3	1.83	100.00	184.97		—
2.50 to < 5.50%	290	5.04	42.27	139.80		—
10.00 to < 20.00%	6	11.32	32.75	156.39		—
20.00 to < 100%	19	41.77	38.15	189.87		—
100.00% (default)	120	100.00	39.64	100.00		—
Revolving						
0.10 to < 0.15%	106	0.11	100.00	25.56		—
1.35 to < 2.50%	122	1.97	100.00	193.60		122
100.00% (default)	1	100.00	100.00	100.00		—
Other Retail						
1.00 to < 1.50%	1,684	1.00	10.00	10.19		—
2.00 to < 2.50%	3	2.00	10.00	12.89		—
3.50 to < 4.00%	1	3.98	10.00	14.44		—
4.00 to < 5.00%	5	4.95	100.00	147.45		—
8.00 to < 10.00%	13	8.39	100.00	159.72		—
Total Retail	\$ 3,294 (c)	5.11%	27.16%	36.56%	\$	245

(a) Weighted averages have been weighted by the sum of EAD within each of the PD bands.

(b) Undrawn amount is defined as the difference between the drawn balance and the limit.

(c) Total retail EAD as of Dec. 31, 2014 decreased \$5.3 billion from \$8.6 billion at Sept. 30, 2014, primarily due to the reclassification of jumbo mortgages from residential mortgages to wholesale corporate exposures.

As reflected in the table above, total retail EAD was \$3.3 billion at Dec. 31, 2014. The majority of the exposures occurred in other retail loans for PD band 1.00 to less than 1.50% and residential mortgage for PD bands 0.10 to less than 0.15%. Other retail loan exposures primarily consist of consumer single payment loans, such as household, family or other personal needs loans, secured by assets other than real estate. Residential mortgage exposures consist of one to four family closed end first liens.

Net Charge-offs

The following table presents BNY Mellon's net charge-offs for the third and fourth quarters of 2014.

Net charge-offs (in millions)	4Q 2014	3Q 2014
Wholesale	\$ 9	\$ 3
Retail:		
Residential	—	1
QRE	—	—
Other	—	—
Total retail	—	1
Total	\$ 9	\$ 4

Net charge-offs were \$9 million in the fourth quarter of 2014 and \$4 million in the third quarter of 2014. Net charge-offs for the fourth quarter of 2014 primarily consisted of commercial loans within the wholesale portfolio. Net charge-offs in the third quarter were primarily in the commercial loan portfolio.

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

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

Additionally, BNY Mellon can suffer market losses due to the deterioration of the credit quality of a counterparty short of its non-performance or default. Because the value of a counterparty's credit quality is factored into the market valuation of the portfolio held with that counterparty, falling credit quality can reduce this value and require a negative adjustment in

our income statement. A significant and broad-based deterioration in credit quality across BNY Mellon's trading counterparties can result in a material loss of market value. This risk is known as CVA risk.

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

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

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

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

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

To support its high-volume FX business, BNY Mellon uses technology-driven, real-time pre-trade credit checks that provide indications to the FX sales

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

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

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

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

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

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

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

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

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

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

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

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

Counterparty default losses, net of recoveries, were \$4.7 million in 2014.

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

Economic Capital

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

Credit Limits

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

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

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

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

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

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

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

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

We manage credit risk at both the individual exposure level as well as at the portfolio level. Credit risk at the individual exposure level is managed through the credit approval system involving Operational Credit Managers, ("OCMs"), CPMs, Credit Division Heads ("CDHs"), the CCO and the CRO. This group, collectively, "Credit Risk Management", is responsible for approving the size, terms and maturity

of all credit exposures as well as the ongoing monitoring of the exposures. BNY Mellon employs a "Signature System" for all credit approvals. A minimum requirement of the "Signature System" is that a proposal must have the signature approval of an OCM or CPM, or higher (unless delegated per policy). In addition, OCMs and CPMs are responsible for assigning and maintaining the risk ratings on each exposure.

Risk Appetite and Tolerance

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

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

Credit Valuation Adjustment

Under our mark-to-market methodology for FX and derivative contracts, an initial "risk-neutral" valuation is performed on each position assuming time-discounting based on a AA credit curve. In addition, we consider credit risk in arriving at the fair value of our derivatives.

We reflect external credit ratings as well as observable credit default swap spreads for both ourselves as well as our counterparties when measuring the fair value of our derivative positions. Accordingly, the valuation of our derivative positions is sensitive to the current changes in our own credit spreads, as well as those of our counterparties. In addition, in cases where a counterparty is deemed

impaired, further analyses are performed to value such positions.

Credit Rating Downgrade

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

The following table shows the fair value of contracts falling under early termination provisions that were in net liability positions as of Dec. 31, 2014 for three key ratings triggers:

If The Bank of New York Mellon's rating was changed to (Moody's/S&P)	Potential close-out exposures (fair value)(a)
A3/A-	\$ 89 million
Baa2/BBB	1,143 million
Ba1/BB+	2,764 million

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

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

Additionally, if The Bank of New York Mellon's debt rating had fallen below investment grade on Dec. 31, 2014, existing collateral arrangements would have required us to have posted an additional \$367 million of collateral.

Derivatives

The Final Capital Rules allow banks to use the Current Exposure Method (“CEM”) or the Internal Models Method (“IMM”), after receiving prior

written approval from the regulators, for estimating EAD associated with counterparty trades. BNY Mellon currently uses the CEM approach for estimating EAD. The table below presents BNY Mellon’s derivative exposure.

<i>Derivatives</i> (in millions)	Dec. 31, 2014							
	OTC Derivatives			Cleared Derivatives				
	Positive Fair Value EAD	PFE	Total EAD	Positive Fair Value EAD	PFE	Total EAD	Total EAD	
Interest rate contracts	\$ 13,329	\$ 2,766	\$ 16,095	\$ 3,663	\$ 2,015	\$ 5,678	\$ 21,773	
Foreign exchange contracts	7,261	6,045	13,306	—	—	—	13,306	
Equity derivative contracts	1,422	3,803	5,225	192	562	754	5,979	
Default Fund Contributions	—	—	—	142	—	142	142	
Other	69	93	162	1,404	155	1,559	1,721	
Total	\$ 22,081	\$ 12,707	\$ 34,788	\$ 5,401	\$ 2,732	\$ 8,133	\$ 42,921	
Netting							(22,292)	
Netted EAD pre Collateral							\$ 20,629	
Collateral applied							(4,101)	
Total after netting and collateral							\$ 16,528	

EAD on derivatives was approximately \$16.5 billion at Dec. 31, 2014, consisting of exposure to OTC derivatives and exposures to cleared derivatives. OTC and cleared derivatives exposures primarily consisted of interest rate contracts, foreign exchange contracts, and equity derivative contracts, partially offset by the effect of netting agreements and collateral applied. Collateral applied consists primarily of cash.

Repo Style Transactions

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

We typically lend securities with indemnification against borrower default. We generally require the borrower to provide collateral with a minimum value of 102% of the fair value of the securities borrowed, which is monitored on a daily basis, thus reducing credit risk. Market risk can also arise in securities lending transactions. These risks are controlled through policies limiting the level of risk that can be undertaken. Securities lending transactions are generally entered into only with highly-rated counterparties. BNY Mellon has indemnified activity of \$304 billion as of Dec. 31, 2014. Securities lending indemnifications were secured by collateral of \$316 billion at Dec. 31, 2014.

CIBC Mellon, a joint venture between BNY Mellon and the Canadian Imperial Bank of Commerce (“CIBC”), engages in securities lending activities. CIBC Mellon, BNY Mellon, and CIBC jointly and severally indemnify securities lenders against specific

types of borrower default. At Dec. 31, 2014, \$64 billion of borrowings at CIBC Mellon for which BNY Mellon acts as agent on behalf of CIBC Mellon clients, were secured by collateral of \$67 billion. If, upon a default, a borrower’s collateral was not sufficient to cover its related obligations, certain losses related to the indemnification could be covered by the indemnitors.

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

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

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

Counterparty credit risk exposure – analysis by product at Dec. 31, 2014

<i>(in millions)</i>	EAD Adjustment Method	LGD Adjustment Method	Total
Securities lending	\$ 30,199	\$ —	\$ 30,199
Repo/Reverse Repo	2,259	210	2,469
Securities/Broker/Margin lending	1,046	608	1,654
Total	\$ 33,504	\$ 818	\$ 34,322

Total counterparty credit risk exposure for repo-style transactions at Dec. 31, 2014 was \$34.3 billion, primarily consisting of securities lending transactions.

Periodically, we purchase single name credit default swaps (“CDS”), index credit default protection or other forms of credit protection to reduce our exposure to certain institutions or industries. All proposed CDS transactions are reviewed by our Risk Management’s Portfolio Monitoring & Hedging

Group. Approvals from the Chief Risk Policy Officer and the Head of Enterprise-Wide Market Risk are required for all CDS transactions.

As of Dec. 31, 2014, BNY Mellon had no CDS and index credit default protection exposures.

Credit Risk Mitigation

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

- Asset Sales (for traditional loan products);
- Active collateralization (for repo-style transactions and derivative transactions); and
- Master agreements/netting arrangements (for derivative transactions).

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

Traditional lending activities and credit products, include:

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

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

Examples of operational credit exposures include:

- Daylight and overnight lending facilities, including daylight overdrafts, day loans to broker/dealers; and
- Securities-related facilities, including repurchase agreements repos/reverse repos, securities lending, tri-party limits, custody and clearing facilities, margin deposit limits, guidance lines for corporate trust, depository receipts and government securities clearance.

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

Examples of Global Markets exposures include:

- Foreign currency contracts;
- Foreign currency option contracts;
- Interest rate swaps, options, caps and floors;
- Futures and forward contracts;
- Equity options; and
- Total return swaps.

Asset Sales

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

Active Collateralization

The acceptance of collateral with at least daily margining is used for various operational credit exposures. In Securities Lending for example, the borrower is required to post collateral for lending activity with additional margins that can range from 102% to 110%. The collateral received from the borrower falls within the acceptable collateral types defined under the Final Capital rules, including cash collateral and other types of security collateral including sovereign bonds, both US and non-US, and equity security collateral. The collateral amounts

with the borrowers are adjusted at the beginning of every day to reflect the prior days' market activity and the collateral amounts are adjusted through-out the day for loan activity with the borrower.

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

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

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

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

Master Agreements and Netting

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

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

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

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

Concentration Risk

While traditionally concentration risk is associated with credit risk, we have taken a broader view of concentration risk. We define concentration risk as the risk of loss not only associated with outsized credit granted to individual or interrelated borrowers

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

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

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

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

- An entity where BNY Mellon is deemed to have an ownership interest having exposure to BNY Mellon that exceeds \$500 million;

- Exposures administered under a special industries lending group;
- Individual country exposures administered by the Global Banks Credit Group;
- Any industry which has an industry lending guideline; and
- Any group of exposures or customers within an industry which, as a group, pose significant credit or operational risks to the Company due to the nature of our business in that industry or due to the financial condition of the industry.

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

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

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

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

Securitization Exposures

Overview

As of Dec. 31, 2014, BNY Mellon did not originate securitization transactions. However, we are exposed

to securitization products as a result of either purchasing securitizations originated by others into our investment portfolio, as a derivatives counterparty to securitization transactions, or through extending credit to Special Purpose Vehicles (“SPVs”) or non-operating companies defined as securitization exposures under the Final Capital Rules. The exposure amount and RWA for securitization exposures found in the banking book, and non-covered positions from the trading book are calculated in accordance with the Final Capital Rules hierarchy of approaches. At Dec. 31, 2014, BNY Mellon was primarily utilizing Simplified Supervisory Formula Approach (“SSFA”). Currently we do not hedge our securitization portfolio.

Risk Governance

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

Objectives of the Company’s Securitization Activity

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

Securitization exposures in the investment portfolio—

BNY Mellon is an investor in securities that qualify as securitization exposures under Basel III. These are composed mostly of highly rated, investment grade securities and include, among other types, investments in residential mortgage backed securities (“RMBS”), commercial MBS and other asset backed securities (“ABS”). The investment portfolio in its entirety is managed by our Corporate Treasury

function and the portfolio’s direction, composition, and riskiness is monitored on a daily basis. As discussed in additional detail below, RWA for securitization exposures are calculated using either the Supervisory Formula Approach (“SFA”), SSFA, a 100% risk weight (for OTC derivatives) or the 1250% risk weighting approach depending on the appropriate treatment for the exposure.

Resecuritization exposures—

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

As a derivatives counterparty to securitization transactions—

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

VFNs—

BNY Mellon extends a limited number of VFNs to specific securitization vehicles. Typically, these exposures are subject to the SFA treatment, although certain VFNs are subject to the SSFA if the SFA can not be applied.

Accounting Policies

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

Calculation of RWA for Securitization Exposures

Consistent with section 939A, of the Dodd-Frank Act, the Final Capital Rules remove the Advanced Approaches risk-based capital rule’s ratings-based approach (“RBA”) and internal assessment approach (“IAA”) for securitization exposures. Under the Final

Capital Rules, the hierarchy for securitization exposures is as follows:

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

The following table presents securitization exposures determined under the Final Capital Rules segmented by the risk weight methodology. The RWA for most securitization exposures is calculated using the SSFA. RWA for VFNs is computed using the SFA treatment. OTC derivatives that support securitization exposures, with the exception of those that do not have first priority on the cash flow waterfall from the underlying exposure, receive a 100% risk weighting. All other securitization exposures without available treatment, or with respect to which a banking organization failed to satisfy applicable due diligence requirements receive a 1250% risk weight.

Outstanding traditional securitization exposures by exposure type at December 31, 2014

(in millions)

Risk weight method	Exposure Category	Securitization exposure amount			Securitization RWA		
		On-balance	Off-balance	Total	On-balance	Off-balance	Total
SSFA	RMBS	\$ 5,192	\$ —	\$ 5,192	\$ 6,599	\$ —	\$ 6,599
SSFA	ABS	3,242	—	3,242	1,039	—	1,039
SSFA	Commercial MBS	1,979	—	1,979	798	—	798
SSFA	CDO/CLO	1,773	—	1,773	371	—	371
SSFA	Resecuritizations	400	—	400	385	—	385
SSFA	Other	—	131	131	—	26	26
Subtotal SSFA exposures		12,586	131	12,717	9,192	26	9,218
SFA	VFNs	—	313	313	—	63	63
100%	OTC derivatives	—	227	227	—	227	227
1250%	Securitization exposure without available data or due diligence	111	2	113	1,392	11	1,403
Total outstanding securitization exposures		\$ 12,697	\$ 673	\$ 13,370	\$ 10,584	\$ 327	\$ 10,911

The total amount of outstanding securitization exposures and RWA at Dec. 31, 2014 was \$13.4 billion and \$10.9 billion, respectively. BNY Mellon did not have any synthetic securitization exposures as of Dec. 31, 2014.

The following table presents securitization exposures by risk weight bands.

Securitization positions retained or purchased by risk weight bands at Dec. 31, 2014						
<i>(in millions)</i>						
Risk weight band	Exposure amount			Capital requirements		
	Securitization	Resecuritization	Total	Securitization	Resecuritization	Total
Subject to SSFA Approach:						
20% to <= 25%	\$ 8,118	\$ 89	\$ 8,207	\$ 130	\$ 2	\$ 132
>25% to <= 35%	344	48	392	8	1	9
>35% to <= 75%	1,019	148	1,167	44	6	50
>75% to <= 250%	1,939	94	2,033	268	8	276
>250% to <= 650%	854	8	862	221	2	223
>650% to <= 1250%	43	13	56	35	12	47
Total SSFA approach	12,317	400	12,717	706	31	737
Subject to 100% OTC, SFA or exposures without available treatment:						
20% to <= 25%	313	—	313	5	—	5
>75% to <= 250%	227	—	227	18	—	18
>650% to <= 1250%	113	—	113	113	—	113
Total other methods	653	—	653	136	—	136
Total securitization positions retained or purchased	\$ 12,970	\$ 400	\$ 13,370	\$ 842	\$ 31	\$ 873

The total amount of outstanding securitization exposures subject to risk weighting were \$13.4 billion at Dec. 31, 2014. Capital requirements for those securitization exposures was \$0.9 billion at Dec. 31, 2014.

The following table details resecuritization positions by exposure type.

Resecuritization positions within the banking book- by exposure type	Dec. 31, 2014	
<i>(in millions)</i>	Exposures before/after credit mitigation and guarantees <i>(a)</i>	
Structured products	\$	398
Other <i>(b)</i>		2
Total resecuritization positions	\$	400

(a) The credit mitigation and guarantees related to resecuritization positions are not significant.

(b) Other resecuritization exposures primarily consists of non pass through MBS.

Operational Risk

In providing a comprehensive array of products and services, we may be exposed to operational/business risk. Operational/business risk may result from, but is not limited to, errors related to transaction processing, breaches of internal control systems and compliance requirements, fraud by employees or persons outside BNY Mellon or business interruption due to system failures or other events. Operational/

business risk may also include breaches of our technology and information systems resulting from unauthorized access to confidential information or from internal or external threats, such as cyber attacks. Operational/business risk also includes potential legal or regulatory actions that could arise as a result of noncompliance with applicable laws and/or regulatory requirements. In the case of an operational event, we could suffer a financial loss as well as damage to our reputation.

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

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

Advanced Measurement Approach (“AMA”) Methodology

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

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

The regulatory capital and economic capital over a one-year time horizon are the diversified capital, and are derived from the annual loss distribution with a confidence level of 99.9%. The capital includes UL and EL without any offsets to the EL.

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

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

Operational/Business Risk Management

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

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

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

Board Oversight and Governance—

The Risk Committee of the Board approves and oversees our operational/business risk management strategy in addition to credit and market risk. The Risk Committee meets regularly to review operational/business risk management initiatives, discuss key risk issues, and review the effectiveness of the risk management systems. It is composed entirely of independent directors and meets on a regular basis to review and assesses the control processes with respect to the Company’s inherent

risks. It also reviews and assesses the Company's fiduciary risk policies and activities, and at least annually, reviews the effectiveness and approves the Company's risk-based capital assessment report which includes the Company's capital ratios calculated under the Final Capital Rules. Policy formulation and day-to-day oversight of the Risk Management Framework is delegated to the CRO, who, together with the Chief Auditor and the CCO, helps ensure an effective risk management governance structure.

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

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

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

The operational risk committees, organization structure, tools and controlling policies are designed to execute the risk management framework

effectively mitigating the risk of loss and damage to our reputation.

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

Accountability of Businesses—

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

Operation Risk Management ("ORM Group")—

The Operational Risk Management Group is responsible for developing risk management policies and tools for assessing, measuring, monitoring and managing operational risk for BNY Mellon. The tools include a business environment and internal control factor self-assessment, key risk indicators and internal operational event data capture (losses).

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

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

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

Information Risk Management (“IRM Group”)—

The Information Risk Management Group is responsible for developing policies, methods and tools for identifying, assessing, measuring, monitoring and governing information and technology risk for BNY Mellon. The Information Risk Management Group partners with the businesses to help maintain and protect the confidentiality, integrity, and availability of the firm’s information and technology assets from internal and external threats such as cyber attacks.

Operational Risk Tools and Framework

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

Reporting of Losses

Operational losses are captured in general ledger accounts that are mapped to the seven operational risk event categories specified in the Final Capital Rules. Information on operational losses that exceed \$10,000 must be entered into a central database. By policy, business managers must elevate loss information within five calendar days of discovering an event where the most likely outcome based on available information is a financial impact of \$50,000 or greater. Notification is required from the business area where the event occurred. This notification is sent to senior line of business managers, the Business Chief Risk Officer, the Chief Operational Risk Officer, and for higher threshold amounts, the CRO, the CFO and General Counsel. The event information from the central database is input to the

operational risk capital model along with external loss data.

Business Environment Self-Assessments

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

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

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

Key Risk Indicators (“KRIs”)

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

Operational Loss Risk Review

The monthly Operational Loss Review is a form of operational risk reporting that highlights operational losses and provides commentary on trends or drivers of losses, total losses by sector and losses expressed as a percentage of revenue. To allow for comparison and to permit focus on problem areas, the report includes information across multiple time horizons. It also provides loss commentary for business lines where losses exceed tolerances and identifies

individual losses in excess of \$250,000 for each sector.

Client & Product Risk Oversight

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

Business Continuity

We regularly assess and monitor operational risk in our business and provide for disaster and business recovery planning, including geographical diversification of our facilities. We are prepared for events that could damage our physical facilities, cause delay or disruptions to operational functions, including telecommunications networks, or impair our employees, clients, vendors and counterparties. Key elements of our business continuity strategies are extensive planning and testing, and diversity of business operations, data centers and telecommunications infrastructure. For a further discussion on this topic, see “Business Continuity” in the MD&A - Results of Operations section of the 2014 BNY Mellon Annual Report on Form 10-K.

Use of Insurance for the Purpose of Mitigating Operational Risk

BNY Mellon mitigates operational risk with a broad range of insurance policies that cover operational events. The insurance policies that BNY Mellon holds include Financial Institutions Bond, Bankers Professional Liability, Directors’ and Officers’ Liability, All Risk Property policies, and Enterprise Cyber / Privacy Liability. Operational loss data are provided to our Corporate Insurance Division in order to raise awareness of significant operational risk issues to ensure appropriate insurance coverage is in place or to enhance existing insurance policies. An operational risk management policy is in place that describes the process for reporting operational loss data to the Corporate Insurance Division. Although we maintain insurance policies to mitigate operational events, insurance recoveries are not included in the loss information used in our operational risk capital model.

Equities Not Subject to Market Risk Rule

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

Accounting and Valuation Methodologies

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

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

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

- **Cost Method** - The investment is recorded as other assets at acquisition cost and dividends received by the Company are recorded as noninterest income. The carrying value of the investment is written down if considered to be

Other-Than-Temporary-Impaired (“OTTI”). The cost method of accounting is used when either BNY Mellon’s share in the voting stock or equity of the investee is less than 20% or it has little influence over management of the investee.

- Equity Method - The investment is initially recorded as other assets at acquisition cost and is subsequently adjusted to recognize the Company’s proportionate share of the investee’s earnings or losses. Distributions and dividends received from the investee are recorded as a reduction in the investment. The carrying value of the investment is written down if considered to be OTTI. The equity method of accounting is used when BNY Mellon’s share in the voting stock or equity of the investee is between 20% and 50%, and it does not otherwise effectively control the investee but has significant influence over operating and financial policies of the investee. This influence can be indicated in several ways, such as, representation on the investee’s board of directors, participation in policy-making processes, material intercompany transactions, interchange of key managers/personnel, or technological dependency.
- Consolidation Method - The financial statements of the investee and BNY Mellon are combined line-by-line as if they were one entity, with a non-controlling ownership shown if less than 100% of the investee is owned. Certain VIEs may be required to be consolidated in accordance with Financial Accounting Standards Board (“FASB”) ASC 810, Consolidation and ASU 2009-17, Consolidation. VIEs evaluated under ASC 810 are consolidated when BNY Mellon absorbs a majority of the VIEs expected losses, receives a majority of the VIEs expected gains or both. VIEs evaluated under ASU 2009-17 are consolidated when BNY Mellon is determined to have a controlling financial interest in the VIE.
- Fair Value Method - Equities such as seed capital and venture capital investments are accounted for at fair value. Seed capital investments in funds that are non-listed, which generally include limited partnerships, limited liability or offshore/overseas structured hedge funds and hedge fund of funds, are not within the scope of ASC 320 and are recorded as other assets. New investment funds may require an investment of seed capital by the Company which will allow the fund to begin purchasing assets in accordance with the fund’s objectives. We apply the fair value option under ASC 825 to all seed capital investments.

All mark-to-market gains and losses related to these investments, which are classified as other assets, are recorded as investment income. Dividend and interest income is recorded as investment income. Venture capital activities consist of investments in private equity funds, mezzanine financings, leveraged bond funds and direct equity investments. As part of its venture capital investments, the Company may enter into commitments to provide additional equity or financing. Fair values for private equity funds are generally based upon information provided by fund sponsors and our knowledge of the underlying portfolio while mezzanine financing and direct equity investments are based upon our internal models.

Purchases of AFS equities are recorded at cost. AFS equities are carried at fair value with the difference between fair value and amortized cost being recognized as unrealized gain (loss) in AOCI within shareholders’ equity, unless a security is OTTI, as described below. Realized gains and losses for equities classified as AFS securities are recorded as gains or losses.

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

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

Risk Weighting Approaches

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

SRWA

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

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

SMLT

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

FLTA

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

The table below details BNY Mellon's equity exposures.

Equity Exposures <i>(in millions)</i>	Dec. 31, 2014			
	EAD	RW %	RWA	Capital Required
Simple Risk Weight Approach:				
Federal Reserve Bank stock	\$ 448	0%	\$ —	\$ —
Community development	1,268	100	1,268	101
Non-significant equity treatment:				
Publicly traded	455	100	455	36
Non-publicly traded	257	100	257	21
Defined benefit pension fund assets	735	100	735	59
Significant investment in unconsolidated subs and covered funds	644	100	644	52
Funds with greater than material leverage	46	600	276	22
Subtotal- Simple Risk Weight Approach	3,853		3,635	291
Simple Modified Look-through Approach:				
Money market	197	20	39	3
Funds subject to 1250% RW	3	1,250	32	2
Other	352	117	411	33
Subtotal- Simple Modified Look-through Approach	552		482	38
Full Look-through Approach:				
Company owned life insurance	2,737	32	878	70
Other	603	22	131	11
Subtotal- Full Look-through Approach	3,340		1,009	81
Total	\$ 7,745		\$ 5,126	\$ 410

The table below presents equity exposure gains and losses.

Equity Exposure - Gains / (Losses) <i>(in millions)</i>	Quarter Ended Dec. 31, 2014
Realized Gains / (Losses) <i>(a) (b)</i>	\$ (2.2)
Unrealized Gains / (Losses) <i>(b) (c)</i>	0.8

(a) Realized gains/(losses) through a sale or liquidation.

(b) Amounts are included in CET1, Tier 1 and total capital.

(c) Unrealized gains/(losses) recognized through equity.

Net realized losses of \$2.2 million for the fourth quarter of 2014 were primarily due to a write-down of a housing partnership investment and liquidation of a strategic joint venture, partially offset by gains due to the liquidation of venture capital and index linked treasury stock.

Net unrealized gains of \$0.8 million for the fourth quarter of 2014 were primarily due to the increase in the market value for investments in trade or clearing associations, non-money market mutual funds, and other corporate investments.

Interest Rate Risk for Non-Trading Activities

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

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

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

Our diversified business activities include processing securities, accepting deposits, investing in securities, lending, raising money as needed to fund assets, and other transactions. The market risks from these activities are interest rate risk and foreign exchange risk. Our primary market risk is exposure to movements in U.S. dollar interest rates and certain foreign currency interest rates. We actively manage interest rate sensitivity and use earnings simulation and discounted cash flow models to identify interest rate exposures.

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

interest rates on net interest revenue. Actual results may differ from projected results due to timing, magnitude and frequency of interest rate changes, and changes in market conditions and management’s strategies, among other factors.

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

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

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

Estimated change in net interest revenue <i>(dollars in millions)</i>	Dec. 31, 2014
up 200 bps parallel rate ramp vs. baseline (a)	\$ 363
up 100 bps parallel rate ramp vs. baseline (a)	326
Long-term up 50 bps, short-term unchanged (b)	28
Long-term down 50 bps, short-term unchanged (b)	(54)

(a) In the parallel rate ramp, both short-term and long-term rates move in four equal quarterly increments.

(b) Long-term is equal to or greater than one year.
bps - basis points.

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

Our net interest revenue sensitivity table above incorporates assumptions about the impact of changes in interest rates on depositor behavior based on historical experience. Given the current historically low interest rate environment, a rise in interest rates could lead to higher depositor withdrawals than historically experienced.

Growth or contraction of deposits could also be affected by the following factors:

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

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

We also project future cash flows from our assets and liabilities over a long-term horizon and then discount these cash flows using instantaneous parallel shocks to prevailing interest rates. This measure reflects the structural balance sheet interest rate sensitivity by discounting all future cash flows. The aggregation of these discounted cash flows is the economic value of equity ("EVE"). The following table shows how the EVE would change in response to changes in interest rates:

Estimated change in EVE	Dec. 31, 2014
Rate change:	
up 200 bps vs. baseline	(9.4)%
up100 bps vs. baseline	(4.3)%

During 2014, we modified our EVE computation methodology and no longer assign an implied equity duration in our calculations. At Dec. 31, 2014, using our previous methodology, we estimated a 2.7% decrease in EVE when interest rates increased 200 basis points versus the baseline and a 1.1% decrease in EVE when interest rates increased 100 basis points versus the baseline.

Forward-looking Statements

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

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

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

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

Acronyms

ABS	Asset-backed security	KRI	Key risk indicators
ALCO	Asset liability committee	L/C	Letters of Credit
AMA	Advanced measurement approach	LDA	Loss distribution approach
AOCI	Accumulated OCI	LGD	Loss given default
APAC	Asia-Pacific region	LIBOR	London Interbank Offered Rate
ASC	Accounting Standards Codification	MBS	Mortgage-backed security
ASU	Accounting Standards Update	NPR	Notice of proposed rulemaking
BHC	Bank holding companies	OCC	Office of the Comptroller of the Currency
bps	basis points	OCI	Other comprehensive income
CCAR	Comprehensive Capital Analysis and Review	OCM	Operational Credit Managers
CCO	Chief Credit Officer	OECD	Organization for economic co-operation and development
CDH	Credit Division Head	ORM	Operational risk management
CDO	Collateralized debt obligations	OTC	Over-the-counter
CEM	Current Exposure Method	OTTI	Other-than-temporary impairment
CET1	Common Equity Tier 1 capital	PD	Probability of default
CLO	Collateralized loan obligation	QRE	Qualified Revolving Exposures
CPM	Credit portfolio managers	RBA	Ratings-based approach
CPPR	Cross-Product Potential Risk	RCSA	Risk and Control Self Assessment
CSA	Credit Support Annex	RMBS	Residential mortgage-backed security
CVA	Credit valuation adjustment	RWA	Risk-weighted assets
DBRS	Dominion Bond Rating Service	S&P	Standard & Poor's
DFAST	Dodd-Frank Act stress tests	SBLC	Standby letters of credit
DVA	Debit valuation adjustment	SEC	Securities and Exchange Commission
EAD	Exposure at Default	SFA	Supervisory Formula Approach
EL	Expected loss	SLR	Supplementary leverage ratio
EMEA	Europe, the Middle East and Africa	SMLT	Simple Modified Look Through Approach
EVE	Economic value of equity	SOX	Sarbanes-Oxley Act
FASB	Financial Accounting Standards Board	SRMC	Senior Risk Management Committee
FDI Act	Federal Deposit Insurance Act	SRWA	Simple Risk Weight Approach
FDIC	Federal Deposit Insurance Corporation	SSFA	Simplified Supervisory Formula Approach
FDICIA	Federal Deposit Insurance Corporation Improvement Act of 1991	TLAC	Total-loss absorbing capacity
FLTA	Full Look Through Approach	UGD	Usage given default
FRB	Federal Reserve Bank	UL	Unexpected loss
FX	Foreign exchange	VaR	Value-at-risk
GAAP	Generally Accepted Accounting Principles	VFN	Variable funding note
GDP	Gross domestic product	VIE	Variable interest entity
G-SIBs	Global Systemically Important Banks		
G-SIFIs	Global Systemically Important Financial Institutions		
HVCRE	High-Volatility Commercial Real Estate		
IAA	Internal assessment approach		
ICAAP	Internal Capital Adequacy Assessment Process		
IPRE	Income Producing Real Estate		
IMM	Internal Models Method		
IRB	Internal Ratings Based		
IRM	Information Risk Management		
IRR	Interest rate risk		
ISDA	International Swaps and Derivatives Association		

Glossary

Americas—Includes locations in North and South America.

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

Asset-backed security (“ABS”)—A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities.

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

Bank exposure—An exposure to the following entities: (1) “Banks, U.S. and Foreign” and “Depository Institutions in the U.S.” as those terms are defined in the Glossary of the Federal Financial Institutions Examination Council’s Consolidated Reports of Condition and Income; (2) securities firms; and (3) multi-lateral development banks that do not have full faith and credit backing of sovereign entities.

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

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

Collateralized Debt Obligations (“CDOs”)—A type of asset-backed security and structured credit product constructed from a portfolio of fixed-income assets.

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

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

Corporate exposure—An exposure to a company that is not: (1) An exposure to a sovereign, the Bank for International Settlements, the European Central Bank, the European Commission, the International Monetary Fund, a multi-lateral development bank, a depository institution, a foreign bank, a credit union, or a public sector entity; (2) An exposure to a government sponsored entity; (3) A residential mortgage exposure; (4) A pre-sold construction loan; (5) A statutory multifamily mortgage; (6) A high volatility commercial real estate exposure; (7) A cleared transaction; (8) A default fund contribution; (9) A securitization exposure; (10) An equity exposure; or (11) An unsettled transaction.

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

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

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

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

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

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

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

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

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

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

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

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

of potential changes in future prices or volatility of the underlying asset.

Debit valuation adjustment (“DVA”)—The unrealized gain or loss related to changes in the fair value of liabilities that are due to changes in own credit risk.

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

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

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

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

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

Economic Value of Equity (“EVE”)—An aggregation of discounted future cash flows of assets and liabilities over a long-term horizon.

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

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

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

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

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

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

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

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

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

High volatility commercial real estate (“HVCRE”)—A credit facility that finances or has financed the acquisition, development, or construction of real property, prior to conversion to permanent financing.

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

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

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

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

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

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

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

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

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

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

Income Producing Real Estate (“IPRE”)—A method of providing funding to real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the asset.

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

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

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

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

London Interbank Offered Rate (“LIBOR”)—An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market. The LIBOR is fixed on a daily basis by the British Bankers’ Association. The LIBOR is derived from a filtered average of the world’s largest banks interbank deposit rates for larger loans with maturities between overnight and one full year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sovereign—A central government (including the U.S. government) or an agency, department, ministry, or central bank of a central government. A sovereign exposure is a direct exposure to a sovereign; or an exposure directly and unconditionally backed by the full faith and credit of a sovereign.

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

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

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

Supplementary leverage ratio (“SLR”)—An Advanced Approaches banking organization’s Basel III supplementary leverage ratio is the simple arithmetic mean of the ratio of its Tier 1 capital to total leverage exposure (which is broadly defined to capture both on- and off-balance sheet exposures.)

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

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

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

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

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

Variable Funding Notes (“VFN”)—An arrangement that allows for drawings on a revolving basis and have been issued pursuant to the Variable Funding Note Purchase Agreement.

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

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

PILLAR 3 DISCLOSURE AS OF DECEMBER 31, 2014

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