Bank of New York Mellon Corp
Form 10-Q
November 07, 2014

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2014

or

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

Commission File No. 001-35651

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

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

One Wall Street
New York, New York 10286
(Address of principal executive offices)(Zip Code)

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

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

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

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

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

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

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

Class	Outstanding as of Sept. 30, 2014
Common Stock, $0.01 par value	1,125,709,682

THE BANK OF NEW YORK MELLON CORPORATION

Third Quarter 2014 Form 10-Q
Table of Contents

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

Consolidated Financial Highlights (unaudited)

	Quarter ended			Year-to-date	
(dollar amounts in millions, except per common share amounts and unless otherwise noted)	Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Results applicable to common shareholders of The Bank of New York Mellon Corporation: (a)					
Net income	$1,070	$554	$962	$2,285	$1,527
Basic EPS	0.93	0.48	0.82	1.98	1.30
Diluted EPS	0.93	0.48	0.82	1.97	1.30
Fee and other revenue (a)	$3,851	$2,980	$2,979	$9,714	$9,042
Income from consolidated investment management funds	39	46	32	121	147
Net interest revenue	721	719	772	2,168	2,248
Total revenue (a)	$4,611	$3,745	$3,783	$12,003	$11,437
Return on common equity (annualized) (a)(b)	11.6 %	6.1 %	11.1 %	8.4 %	5.9 %
Non-GAAP (a)(b)(c)	8.5 %	8.4 %	8.9 %	8.2 %	9.1 %
Return on tangible common equity (annualized) – Non-GAAP (a)(b)	26.2 %	14.5 %	28.3 %	19.6 %	15.7 %
Non-GAAP adjusted (a)(b)(c)	18.4 %	18.4 %	21.3 %	18.1 %	21.7 %
Return on average assets (annualized) (a)	1.12 %	0.60 %	1.12 %	0.83 %	0.60 %
Fee revenue as a percentage of total revenue excluding net securities gains	83 %	79 %	79 %	81 %	79 %
Percentage of non-U.S. total revenue (a)(d)	43 %	38 %	38 %	39 %	37 %
Pre-tax operating margin (a)(b)	36 %	22 %	26 %	28 %	27 %
Non-GAAP (b)(c)	29 %	30 %	29 %	28 %	29 %
Net interest margin (FTE)	0.94 %	0.98 %	1.16 %	0.99 %	1.14 %
Assets under management at period end (in billions) (e)	$1,646	$1,636	$1,532	$1,646	$1,532
Assets under custody and/or administration ("AUC/A") at period end (in trillions) (f)	$28.3	$28.5	$27.4	$28.3	$27.4
Market value of securities on loan at period	$282	$280	$255	$282	$255

end (in billions) (g)

Average common shares and equivalents outstanding (in thousands):														
Basic	1,126,946			1,133,556		1,148,724			1,133,006			1,153,327		
Diluted	1,134,871			1,139,800		1,152,679			1,139,718			1,156,951		
Capital ratios														
Common equity Tier 1 ("CET1") ratio (h)(i)	11.4	%	(b)	11.2	%	14.2	%	(b)(k)	11.4	%	(b)	14.2	%	(b)(k)
Tier 1 capital ratio (h)(i)	12.3	%	(b)	12.2	%	15.8	%	(k)	12.3	%	(b)	15.8	%	(k)
Total (Tier 1 plus Tier 2) capital ratio (h)(i)	12.7	%	(b)	12.6	%	16.8	%	(k)	12.7	%	(b)	16.8	%	(k)
Leverage capital ratio (i)	5.8	%		5.9	%	5.6	%	(k)	5.8	%		5.6	%	(k)
BNY Mellon shareholders' equity to total assets ratio (b)	10.0	%		9.6	%	9.9	%		10.0	%		9.9	%	
BNY Mellon common shareholders' equity to total assets ratio (b)	9.5	%		9.2	%	9.5	%		9.5	%		9.5	%	
BNY Mellon tangible common shareholders' equity to tangible assets of operations ratio – Non-GAAP (a)(b)	6.5	%		6.4	%	6.3	%		6.5	%		6.3	%	
Estimated CET1, fully phased-in – Non-GAAP: (b)(h)(j)														
Standardized Approach	10.8	%		9.9	%	10.1	%		10.8	%		10.1	%	
Advanced Approach	10.2	%		10.0	%	11.1	%		10.2	%		11.1	%	
Estimated supplementary leverage ratio ("SLR"), fully phased-in – Non-GAAP (b)(l)	4.6	%		4.7	%	N/A			4.6	%		N/A		

Consolidated Financial Highlights (unaudited) (continued)

(dollar amounts in millions, except per common share amounts and unless otherwise noted)	Quarter ended Sept. 30, 2014	June 30, 2014	Sept. 30, 2013	Year-to-date Sept. 30, 2014	Sept. 30, 2013
Selected average balances					
Interest-earning assets	$311,603	$300,758	$271,150	$299,064	$268,480
Assets of operations	$370,167	$357,807	$329,887	$357,301	$326,020
Total assets	$380,409	$369,212	$341,750	$368,297	$337,651
Interest-bearing deposits	$164,233	$162,674	$153,547	$160,006	$150,853
Noninterest-bearing deposits	$82,334	$77,820	$72,075	$80,531	$71,026
Preferred stock	$1,562	$1,562	$1,562	$1,562	$1,328
Total The Bank of New York Mellon Corporation common shareholders' equity	$36,751	$36,565	$34,264	$36,537	$34,541
Other information at period end					
Cash dividends per common share	$0.17	$0.17	$0.15	$0.49	$0.43
Common dividend payout ratio	18 %	35 %	18 %	25 %	33 %
Common dividend yield (annualized)	1.7 %	1.8 %	2.0 %	1.7 %	1.9 %
Closing stock price per common share	$38.73	$37.48	$30.19	$38.73	$30.19
Market capitalization	$43,599	$42,412	$34,674	$43,599	$34,674
Book value per common share – GAAP (a)(b)	$32.77	$32.49	$30.80	$32.77	$30.80
Tangible book value per common share – Non-GAAP (a)(b)	$15.30	$14.88	$13.34	$15.30	$13.34
Full-time employees	50,900	51,100	50,800	50,900	50,800
Common shares outstanding (in thousands)	1,125,710	1,131,596	1,148,522	1,125,710	1,148,522

(a) The three and nine months ended Sept. 30, 2013 were restated to reflect the retrospective application of adopting new accounting guidance in the first quarter of 2014 related to our investments in qualified affordable housing projects (ASU 2014-01). See Note 2 of the Notes to Consolidated Financial Statements for additional information.

(b) See "Supplemental information – Explanation of GAAP and Non-GAAP financial measures" beginning on page 56 for a reconciliation of these ratios.

(c) Non-GAAP excludes amortization of intangible assets, merger and integration ("M&I"), litigation, restructuring charges, the gain on the sale of our investment in Wing Hang, the gain on the sale of the One Wall Street building, a charge (recovery) related to investment management funds, net of incentives and the (benefit)/net charge related to the disallowance of certain foreign tax credits, if applicable.

(d) Includes fee revenue, net interest revenue and income of consolidated investment management funds, net of net income attributable to noncontrolling interests.

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

(f) Includes the AUC/A of CIBC Mellon Global Securities Services Company ("CIBC Mellon"), a joint venture with the Canadian Imperial Bank of Commerce, of $1.2 trillion at Sept. 30, 2014, June 30, 2014 and Sept. 30, 2013.

(g) Represents the total amount of securities on loan managed by the Investment Services business. Excludes securities for which BNY Mellon acts as an agent, beginning in the fourth quarter of 2013, on behalf of CIBC Mellon clients, which totaled $65 billion at Sept. 30, 2014 and $64 billion at June 30, 2014.

(h) Beginning with June 30, 2014, risk-based capital ratios include the net impact of including the total consolidated assets of certain consolidated investment management funds in risk-weighted assets. These assets were not included in prior periods. The leverage capital ratio was not affected. The June 30, 2014 risk-based capital ratios also reflect adjustments due to refinements in the data used in determining risk-weighted assets. These adjustments resulted in reductions of approximately 20 basis points to the CET1, Tier 1 capital and Total capital ratios and approximately 40 basis points to the estimated CET1 fully phased-in (Non-GAAP) ratio calculated under the Standardized Approach. For additional information on these ratios, see “Capital” beginning on page 46.

(i) At Sept. 30, 2014 and June 30, 2014, the CET1, Tier 1 and Total risk-based regulatory capital ratios are based on Basel III components of capital, as phased-in, with asset risk-weightings using the Advanced Approach framework. The leverage capital ratios are based on Basel III components of capital and quarterly average total assets, as phased-in. For additional information on these ratios, see “Capital” beginning on page 46.

(j) The estimated fully phased-in Basel III CET1 ratios are based on our interpretation of the final rules released by the Board of Governors of the Federal Reserve System (the “Federal Reserve”) on July 2, 2013 (the “Final Capital Rules”), which are being gradually phased-in over a multi-year period. For additional information on these ratios, see “Capital” beginning on page 46.

(k) The capital ratios for Sept. 30, 2013 are based on Basel I rules (including Basel I Tier 1 common in the case of the CET1 ratio).

(l) The estimated fully phased-in SLR as of Sept. 30, 2014 is based on our interpretation of the Final Capital Rules, as supplemented by the Federal Reserve’s final rules on the SLR. The estimated fully phased-in SLR as of June 30, 2014 is based on our interpretation of the Final Capital Rules, as supplemented by the Notice of Proposed Rulemaking released in April 2014 concerning the SLR, except that off-balance sheet exposures included in total leverage exposure reflect the end of period measures, rather than a daily average. On a fully phased-in basis, we expect to satisfy a minimum SLR of over 5%, 3% attributable to a regulatory minimum SLR, and greater than 2% attributable to a buffer applicable to U.S. global systemically important banks (“G-SIBs”).

N/A – Not available.

Part I - Financial Information

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

General

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

Certain business terms used in this report are defined in the Glossary included in our Annual Report on Form 10-K for the year ended Dec. 31, 2013 (“2013 Annual Report”).

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

How we reported results

Throughout this Form 10-Q, certain measures, which are noted as “Non-GAAP financial measures,” exclude certain items. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons using measures that relate to our ability to enhance revenues and limit expenses in circumstances where such matters are within our control. We also present the net interest margin on a fully taxable equivalent (“FTE”) basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. See “Supplemental information - Explanation of GAAP and Non-GAAP financial measures” beginning on page 56 for a reconciliation of financial measures presented in accordance with U.S. generally accepted accounting principles (“GAAP”) to adjusted Non-GAAP financial measures.

In the first quarter of 2014, BNY Mellon elected to early adopt the new accounting guidance included in Accounting Standards Update (“ASU”) 2014-01, “Accounting for Investments in Qualified Affordable Housing Projects - a Consensus of the FASB Emerging Issues Task Force.” As a result, we

restated the prior period financial statements to reflect the impact of the retrospective application of the new accounting guidance. See Note 2 of the Notes to Consolidated Financial Statements for additional information.

Overview

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 Sept. 30, 2014, BNY Mellon had $28.3 trillion in assets under custody and/or administration, and $1.6 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

Key third quarter 2014 and subsequent events

Acquisition of Cutwater Asset Management

In October 2014, BNY Mellon announced that it has signed an agreement to acquire Cutwater Asset Management, a U.S.-based fixed income and solutions specialist with approximately $23 billion in assets under management. Located in Armonk, NY, the firm is currently a wholly-owned subsidiary of MBIA Inc. The transaction is subject to customary closing conditions, including the receipt of regulatory approvals, and is expected to close by the beginning of the first quarter of 2015.

Exit of the derivatives sales and trading business

In September 2014, BNY Mellon announced that it repositioned the BNY Mellon Markets Groups and will be exiting the derivatives sales and trading business over the next several years. This action will be beneficial to our operating margin and return on capital.

Corporate headquarters

In September 2014, BNY Mellon sold its One Wall Street office building in lower Manhattan for $585 million. BNY Mellon has occupied the 50 story, 1.1 million square foot building since 1989. The sale resulted in an after-tax gain of $204 million, or $346 million pre-tax.

Supplementary leverage ratio

The Final Capital Rules includes a minimum 3% supplementary leverage ratio (“SLR”) to become effective as a binding ratio on Jan. 1, 2018, although commencing in January 2015 each Advanced Approaches banking organization is required to calculate and report its SLR.

On Sept. 3, 2014, the U.S. federal banking agencies issued a final rule implementing the SLR. An enhanced SLR applicable to BNY Mellon and the other U.S. G-SIB bank holding companies will require a buffer in excess of 2% over the minimum 3% SLR for a total SLR in excess of 5%. In addition, the eight U.S. G-SIBs’ insured depository institution subsidiaries, regardless of the amount of their consolidated assets or assets under custody, must maintain a 6% SLR to be considered “well-capitalized.”

BNY Mellon’s estimated fully phased-in SLR of 4.6% at Sept. 30, 2014 was based on our interpretation of the Final Capital Rules, as supplemented by the final rules implementing the SLR.

BNY Mellon expects to fully satisfy the requirements of the SLR on or before it is phased-in. For additional information regarding the SLR, see “Recent accounting and regulatory developments - Regulatory developments.”

Liquidity coverage ratio

The Basel III framework requires banks and bank holding companies (“BHCs”) to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, will be required by regulation. One test, referred to as the liquidity coverage ratio (“LCR”), is designed to ensure that the banking entity maintains an adequate

level of unencumbered high-quality liquid assets relative to the entity’s net stressed cash outflow for a 30-day time horizon under an acute liquidity stress scenario.

On Sept. 3, 2014 the U.S. federal banking agencies issued a final rule (the “Final LCR Rule”) to implement the LCR in the U.S. Starting on Jan. 1, 2015, covered companies, including BNY Mellon, will be required to meet an LCR of 80% percent, increasing annually by 10% increments until Jan. 1, 2017, at which time covered companies would be required to meet a liquidity coverage ratio of 100%.

BNY Mellon expects to fully satisfy the requirement of this new measure of liquidity as it is phased-in without materially impacting our businesses. For additional information regarding the LCR, see “Recent accounting and regulatory developments - Regulatory developments.”

Sale of our equity investment in Wing Hang Bank Limited (“Wing Hang”)

In July 2014, BNY International Financing Corp., a subsidiary of BNY Mellon, sold our equity investment in Wing Hang, which is located in Hong Kong, to Oversea-Chinese Banking Corporation Limited, resulting in an after-tax gain of $315 million, or $490 million pre-tax. Equity income related to our investment in Wing Hang totaled $20 million through July of 2014 and $95 million in full-year 2013, including $37 million from the sale of a property recorded in the third quarter of 2013.

Completion of federal income tax exam

As previously disclosed, our 2006 and 2009 tax years remain open primarily to permit a tax carryback claim. On Nov. 4, 2014, the IRS notified us that our carryback claim was approved and they are processing the refund. We are determining the financial statement impact of the carryback and associated interest but estimate the after-tax benefit will range between $160 million to $190 million in the fourth quarter of 2014.

Highlights of third quarter 2014 results

In the third quarter of 2014, BNY Mellon reported net income applicable to common shareholders of $1.07 billion, or $0.93 per diluted common share, or $734 million, or $0.64 per diluted common share, adjusted for gains related to the sale of our equity investment in Wing Hang and the sale of our One Wall Street building, net of litigation and restructuring charges. In the third quarter of 2013, net income applicable to common shareholders was $962 million, or $0.82 per diluted common share, or $713 million, or $0.61 per diluted common share, adjusted for the benefit related to certain tax matters net of litigation and restructuring charges. In the second quarter of 2014, net income applicable to common shareholders was $554 million, or $0.48 per diluted common share, or $715 million, or $0.62, per diluted common share adjusted for a charge related to investment management funds and severance. See "Supplemental information - Explanation of GAAP and Non-GAAP financial measures" beginning on page 56 for the reconciliation of Non-GAAP measures.

Highlights of the third quarter 2014 include:

- AUC/A totaled $28.3 trillion at Sept. 30, 2014 compared with $27.4 trillion at Sept. 30, 2013. The increase of 3% primarily reflects higher market values. (See the "Investment Services business" beginning on page 23).
- Assets under management ("AUM"), excluding securities lending cash management assets and assets managed in the Investment Services business, totaled a record $1.65 trillion at Sept. 30, 2014 compared with $1.53 trillion at Sept. 30, 2013. The increase of 7% resulted from higher equity market values and net new business. (See the "Investment Management business" beginning on page 20).
- Investment services fees totaled $1.8 billion, an increase of 5% compared with the third quarter of 2013. The increase primarily reflects organic growth, higher market values and net new business. (See the "Investment Services business" beginning on page 23).
- Investment management and performance fees totaled $881 million, a 7% increase compared with the third quarter of 2013. The increase primarily reflects higher equity markets, the impact of a weaker U.S. dollar and higher performance fees. (See the "Investment Management business" beginning on page 20).
- Foreign exchange and other trading revenue totaled $153 million in the third quarter of 2014 compared with $160 million in the third quarter of 2013. Foreign exchange revenue was flat as higher volumes were offset by lower volatility.

Other trading revenue decreased reflecting lower derivatives trading revenue. (See "Fee and other revenue" beginning on page 7).

- Investment and other income totaled $890 million in the third quarter of 2014 compared with $151 million in the third quarter of 2013. The increase primarily reflects the gains on the sales of our equity investment in Wing Hang and our One Wall Street building, partially offset by lower equity investment revenue and seed capital gains. (See "Fee and other revenue" beginning on page 7).
- Net interest revenue totaled $721 million in the third quarter of 2014 compared with $772 million in the third quarter of 2013. The decrease primarily resulted from lower asset yields and lower accretion, partially offset by higher average interest-bearing assets driven by higher deposits. (See "Net interest revenue" beginning on page 11).
- The net unrealized pre-tax gain on our total investment securities portfolio was $1.1 billion at Sept. 30, 2014 compared with $1.2 billion at June 30, 2014. The decrease was primarily driven by an increase in market interest rates. (See "Investment securities" beginning on page 32).
- The provision for credit losses was a credit of $19 million in the third quarter of 2014 driven by the continued improvement in the credit quality of the loan portfolio. (See "Asset quality and allowance for credit losses" beginning on page 37).
- Noninterest expense totaled $3.0 billion in the third quarter of 2014 compared with $2.8 billion in the third quarter of 2013. The increase primarily reflects higher litigation expense, restructuring charges and the impact of a weaker U.S. dollar. Total noninterest expense excluding amortization of intangible assets, M&I, litigation and restructuring charges, and the charge (recovery) related to investment management funds (Non-GAAP) decreased slightly year-over-year. (See "Noninterest expense" beginning on page 14).
- The provision for income taxes was $556 million (33.5% effective tax rate) in the third quarter of 2014. The gains on the sales of our equity investment in Wing Hang and our One Wall Street building, litigation and restructuring charges increased the effective tax rate 7.1% in the third quarter of 2014. (See "Income taxes" on

page 15).

- Our estimated Basel III CET1 ratio (Non-GAAP) calculated under the Advanced Approach on a fully phased-in basis, was 10.2% at Sept. 30, 2014 and 10.0% at June 30, 2014. Our estimated Basel III CET1 ratio (Non-GAAP) calculated under the Standardized Approach on a fully

phased-in basis, was 10.8% at Sept. 30, 2014, compared with 9.9% at June 30, 2014. (See "Capital" beginning on page 46).

- In the third quarter of 2014, we repurchased 11.0 million common shares for a total cost of $431 million.

Fee and other revenue

Fee and other revenue				3Q14 vs.			Year-to-date		YTD14 vs.	
(dollars in millions, unless otherwise noted)	3Q14	2Q14	3Q13	3Q13	2Q14		2014	2013	YTD13	
Investment services fees:										
Asset servicing (a)	$1,025	$1,022	$964	6 %	—	%	$3,056	$2,921	5	%
Clearing services	337	326	315	7	3		988	940	5	
Issuer services	315	231	322	(2)	36		775	853	(9	)
Treasury services	142	141	137	4	1		419	417	—	
Total investment services fees	1,819	1,720	1,738	5	6		5,238	5,131	2	
Investment management and performance fees	881	883	821	7	—		2,607	2,491	5	
Foreign exchange and other trading revenue	153	130	160	(4)	18		419	528	(21	)
Distribution and servicing	44	43	43	2	2		130	137	(5	)
Financing-related fees	44	44	44	—	—		126	129	(2	)
Investment and other income (b)	890	142	151	N/M	N/M		1,134	524	N/M	
Total fee revenue (b)	3,831	2,962	2,957	30	29		9,654	8,940	8	
Net securities gains	20	18	22	N/M	N/M		60	102	N/M	
Total fee and other revenue (b)	$3,851	$2,980	$2,979	29 %	29	%	$9,714	$9,042	7	%
AUM at period end (in billions) (c)	$1,646	$1,636	$1,532	7 %	1	%	$1,646	$1,532	7	%
AUC/A at period end (in trillions) (d)	$28.3	$28.5	$27.4	3 %	(1	)%	$28.3	$27.4	3	%

(a) Asset servicing fees include securities lending revenue of $37 million in the third quarter of 2014, $46 million in the second quarter of 2014, $35 million in the third quarter of 2013, $121 million in the first nine months of 2014 and $124 million in the first nine months of 2013.

(b) Results for the third quarter of 2013 and the first nine months of 2013 were restated to reflect the retrospective application of adopting new accounting guidance in the first quarter of 2014 related to our investments in qualified affordable housing projects (ASU 2014-01). See Note 2 of the Notes to Consolidated Financial Statements for additional information.

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

(d) Includes the AUC/A of CIBC Mellon of $1.2 trillion at Sept. 30, 2014, June 30, 2014 and Sept. 30, 2013.

N/M - Not meaningful.

Fee and other revenue

Fee and other revenue totaled $3.9 billion in the third quarter of 2014, an increase of 29% both year-over-year and sequentially. Both increases primarily reflect the gains on the sales of the equity investment in Wing Hang and the One Wall Street building. The year-over-year increase also reflects higher asset servicing fees, investment management and performance fees and clearing services fees, partially offset by lower investment and other income (excluding the Wing Hang and One Wall Street gains) and lower foreign exchange and other trading revenue. Sequentially, the increase also reflects higher issuer services fees, clearing services fees and foreign exchange and other trading revenue, partially

offset by lower investment and other income (excluding the Wing Hang and One Wall Street gains).

Investment services fees

Investment services fees were impacted by the following compared with the third quarter of 2013 and the second quarter of 2014:

- Asset servicing fees increased 6% year-over-year and increased slightly sequentially. The year-over-year increase primarily reflects organic growth, higher market values, net new business and higher collateral management fees in Global Collateral Services. The sequential increase primarily reflects organic growth, partially offset by seasonally lower securities lending revenue.

- Clearing services fees increased 7% year-over-year and increased 3% (unannualized) sequentially. Both increases were driven by growth in clearing accounts and mutual fund positions, and higher asset levels. The sequential increase also reflects higher DARTS volume.
- Issuer services fees decreased 2% year-over-year and increased 36% (unannualized) sequentially. The year-over-year decrease reflects lower Corporate Trust fees, partially offset by new business in Depositary Receipts. The sequential increase is primarily due to seasonally higher dividend fees and new business in Depositary Receipts, partially offset by lower Corporate Trust fees. We continue to estimate that net maturities of high margin structured debt securitizations could reduce the Company's total annual revenue by up to one-half of 1% if the structured debt markets do not recover.
- Treasury services fees increased 4% year-over-year and 1% (unannualized) sequentially. The year-over-year increase primarily reflects higher payment volumes.

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

Investment management and performance fees

Investment management and performance fees totaled $881 million in the third quarter of 2014, an increase of 7% year-over-year and a slight decrease sequentially. The year-over-year increase primarily resulted from higher equity markets, the impact of a weaker U.S. dollar and higher performance fees. The sequential decrease was primarily driven by seasonally lower performance fees and the impact of a stronger U.S. dollar. Performance fees were $22 million in the third quarter of 2014 compared with $10 million in the third quarter of 2013 and $29 million in the second quarter of 2014.

Total AUM for the Investment Management business was a record $1.65 trillion at Sept. 30, 2014, an increase of 7% year-over-year and 1% (unannualized) sequentially. The year-over-year increase primarily resulted from higher equity market values and net new business. The sequential increase primarily reflects net new business. Net long-term inflows totaled $13 billion in the third quarter of 2014 driven

by liability-driven investments, while short-term inflows were $19 billion.

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

Foreign exchange and other trading revenue

Foreign exchange and other trading revenue				Year-to-date	
(in millions)	3Q14	2Q14	3Q13	2014	2013
Foreign exchange	$154	$129	$154	$413	$482
Other trading revenue (loss):					
Fixed income	2	(1)	(2)	2	18
Equity/other	(3)	2	8	4	28
Total other trading revenue (loss)	(1)	1	6	6	46
Total foreign exchange and other trading revenue	$153	$130	$160	$419	$528

Foreign exchange and other trading revenue totaled $153 million in the third quarter of 2014, $160 million in the third quarter of 2013 and $130 million in the second quarter of 2014. In the third quarter of 2014, foreign exchange revenue totaled $154 million, unchanged year-over-year and up 19% (unannualized) sequentially. Year-over-year, higher volumes offset lower volatility. The sequential increase reflects higher volumes. Total other trading loss was $1 million in the third quarter of 2014 compared with other trading revenue of $6 million in the third quarter of 2013 and other trading revenue of $1 million in the second quarter of 2014. Both decreases primarily reflect lower derivatives trading revenue. Foreign exchange revenue and fixed income trading revenue are reported in the Investment Services business and the Other segment. Equity/other trading revenue is primarily reported in the Other segment.

The foreign exchange trading engaged in by the Company generates revenues, which are influenced by the volume of client transactions and the spread realized on these transactions. Revenues are impacted by market pressures which continue to be increasingly competitive. The level of volume and spreads is affected by market volatility, the level of cross-border assets held in custody for clients, the level and nature of underlying cross-border investments and other transactions undertaken by corporate and institutional clients. These revenues also depend on our ability to manage the risk associated with the currency transactions we execute. A substantial majority of our foreign exchange trades are undertaken for our custody clients in transactions where BNY Mellon acts as principal, and not as an agent or broker. As a principal, we earn a profit, if any, based on our ability to risk manage the aggregate foreign currency positions that we buy and sell on a daily basis. Generally speaking, custody clients enter into foreign exchange transactions in one of three ways: negotiated trading with BNY Mellon, BNY Mellon's standing instruction program, or transactions with third-party foreign exchange providers. Negotiated trading generally refers to orders entered by the client or the client's investment manager, with all decisions related to the transaction, usually on a transaction-specific basis, made by the client or its investment manager. Such transactions may be initiated by (i) contacting one of our sales desks to negotiate the rate for specific transactions, (ii) using electronic trading platforms, or (iii) electing other methods such as those pursuant to a benchmarking arrangement, in which pricing is determined by an objective market rate adjusted by a pre-negotiated spread. Our custody clients choose to use third-party foreign exchange providers other than BNY Mellon for a substantial majority of their U.S. dollar-equivalent volume foreign exchange transactions. The preponderance of the notional value of our trading volume with clients is in negotiated trading. Our standing instruction program, including a standing instruction program option called the Defined Spread Offering, which the Company introduced to clients in the first quarter of 2012, provides custody clients and their investment managers with an end-to-end solution that allows them to shift to BNY Mellon the cost, management and execution risk, often in small transactions or transactions in restricted and difficult to trade currencies. We incur substantial costs in supporting the global operational infrastructure required to administer the standing instruction program; on a per-transaction basis, the costs associated with the standing instruction program exceed the costs associated with negotiated trading. In response to competitive market pressures and client requests, we are continuing to develop standing instruction program products and services and making these new products and services available to our clients. In our historical standing instruction program, known as Session Range, we typically assigned a price derived from the daily pricing range for marketable-size foreign exchange transactions (generally more than

$1 million) executed between global financial institutions, known as the "interbank range." Using the interbank range for the given day, we typically priced client purchases of currencies at or near the high end of this range and client sales of currencies at or near the low end of this range. In the first quarter of 2014, we upgraded our Session Range program. The upgrades include pricing pursuant to pre-defined rules and enhanced post-trade reporting, with transactions priced once per day within the interbank range of the day, and subject to application of a price collar, with price being specific to session, pricing location and currency pair. A description of the pricing rules used in the upgraded Session Range program is set forth in the program's disclosure documentation, which is available to clients and their investment managers. Separately, the standing instruction program Defined Spread Offering sets prices for transactions in each pricing cycle (several times a day in the case of developed market currencies) by adding a predetermined spread either to an objective market source for developed and certain emerging market currencies, or to a reference rate computed by BNY Mellon for other emerging market currencies. A description of the pricing rules is set forth in the Defined Spread Offering's disclosure documentation, which is available to clients and their investment managers.

A shift by custody clients from the standing instruction program to other trading options combined with competitive market pressures on the foreign exchange business may negatively impact our foreign exchange revenue. We continue to invest in our foreign exchange trading and execution capabilities, which is leading towards enhanced customer service and higher volumes. For the quarter ended Sept. 30, 2014, our total revenue for all types of foreign exchange trading transactions was $154 million, or approximately 3% of our total revenue and approximately 29% of our foreign exchange revenue resulted from foreign exchange transactions undertaken through our standing instruction program. The percentage of our foreign exchange revenue resulting from transactions undertaken through our standing instruction program declined compared with the second quarter of 2014 primarily reflecting an increase in other BNY Mellon foreign exchange activities in the third quarter of 2014.

Distribution and servicing fees

Distribution and servicing fee revenue was $44 million in the third quarter of 2014 and $43 million in both the third quarter of 2013 and second quarter of 2014.

Financing-related fees

Financing-related fees, which are primarily reported in the Other segment, include capital markets fees, loan commitment fees and credit-related fees. Financing-related fees totaled $44 million in the third quarter of 2014, the third quarter of 2013 and the second quarter of 2014.

Investment and other income

Investment and other income

				Year-to-date	
(in millions)	3Q14	2Q14	3Q13	2014	2013
Asset-related gains	$836	$17	$35	$852	$49
Corporate/bank-owned life insurance	34	30	38	94	104
Lease residual gains	5	4	7	44	18
Expense reimbursements from joint venture	13	15	12	40	31
Seed capital gains (losses)	(1)	15	7	20	14
Equity investment revenue (loss)	(9)	17	48	6	261
Private equity gains (losses)	2	(2)	(2)	5	1
Transitional services agreements	—	—	—	—	9
Other income (a)	10	46	6	73	37
Total investment and other income (a)	$890	$142	$151	$1,134	$524

(a) Results for the third quarter of 2013 and the first nine months of 2013 were restated to reflect the retrospective application of adopting new accounting guidance in the first quarter of 2014 related to our investments in qualified affordable housing projects (ASU 2014-01). See Note 2 of the Notes to Consolidated Financial Statements for additional information.

Investment and other income, which is primarily reported in the Other segment and Investment Management business, includes asset-related gains, insurance contracts, lease residual gains, expense reimbursements from our CIBC Mellon joint venture, seed capital gains and losses, gains and losses on equity investments, gains and losses on private equity investments, transitional services agreements, and other income. Asset-related gains include real estate, loans and other asset dispositions. Expense

reimbursements from our CIBC Mellon joint venture relate to expenses incurred by BNY Mellon on behalf of the CIBC Mellon joint venture. Transitional services agreements primarily relate to the Shareowner Services business, which was sold on Dec. 31, 2011. Other income primarily includes foreign currency remeasurement gain (loss), other investments and various miscellaneous revenues. Investment and other income increased $739 million compared with the third quarter of 2013 and $748 million compared to the second quarter of 2014. Both increases primarily reflect the gains on the sales of the equity investment in Wing Hang and the One Wall Street building, partially offset by lower equity investment revenue and seed capital gains.

In July 2014, we sold our equity investment in Wing Hang resulting in an after-tax gain on $315 million, or $490 million pre-tax. Equity investment revenue related to our investment in Wing Hang totaled $20 million through July of 2014 and $95 million in full-year 2013, including $37 million from the sale of a property recorded in the third quarter of 2013.

In September 2014, we sold the corporate headquarters at One Wall Street resulting in an after-tax gain of $204 million, or $346 million pre-tax.

Year-to-date 2014 compared with year-to-date 2013

Fee and other revenue for the first nine months of 2014 totaled $9.7 billion compared with $9.0 billion in the first nine months of 2013. The increase primarily reflects the gains on the sales of the equity investment in Wing Hang and the One Wall Street building, higher asset servicing fees, investment management and performance fees, and clearing services fees, partially offset by a gain related to an equity investment recorded in the second quarter of 2013, lower foreign exchange and other trading revenue, issuer services fees, investment and other income (excluding the aforementioned gains) and securities gains.

The increase in asset servicing fees primarily reflects higher market values, organic growth, net new business and higher collateral management fees in Global Collateral Services. The increase in investment management and performance fees reflects higher market values, the impact of a weaker U.S. dollar and net new business. The increase in clearing services fees primarily reflects higher mutual fund fees. The decrease in foreign exchange and other trading revenue primarily reflects lower volatility, partially offset by higher volumes. The decrease in issuer services fees primarily reflects the

impact of continued net maturities of high margin securitizations in Corporate Trust and lower dividend fees in Depositary Receipts.

Net interest revenue

Net interest revenue (dollars in millions)	3Q14	2Q14	3Q13	3Q14 vs. 3Q13	3Q14 vs. 2Q14	Year-to-date 2014	Year-to-date 2013	YTD14 vs. YTD13
Net interest revenue (non-FTE)	$721	$719	$772	(7)%	— %	$2,168	$2,248	(4)%
Tax equivalent adjustment	15	17	15	—	(12)	48	43	12
Net interest revenue (FTE) – Non-GAAP	$736	$736	$787	(6)%	— %	$2,216	$2,291	(3)%
Average interest-earning assets	$311,603	$300,758	$271,150	15 %	4 %	$299,064	$268,480	11 %
Net interest margin (FTE)	0.94 %	0.98 %	1.16 %	(22)bps	(4)bps	0.99 %	1.14 %	(15)bps

bps - basis points.

Net interest revenue totaled $721 million in the third quarter of 2014, a decrease of $51 million compared with the third quarter of 2013 and an increase of $2 million sequentially. The year-over-year decrease primarily resulted from lower asset yields and lower accretion, partially offset by higher average interest-earning assets driven by higher deposits.

Euro-denominated deposit liabilities comprised 15% of average deposits in the third quarter of 2014 and 16% of average deposits in the second quarter of 2014.

The net interest margin (FTE) was 0.94% in the third quarter of 2014, a decrease compared with 1.16% in the third quarter of 2013 and 0.98% in the second quarter of 2014. Both decreases primarily reflect the factors noted above.

In the fourth quarter of 2014, we are continuing to reduce our interbank placement assets and increasing our high quality liquid assets in the securities portfolio. The anticipated revenue as a result of these tactical actions should mitigate the impact on our net interest revenue as a result of:

- the European Central Bank’s reduction in their deposit rate to negative, and the resulting impact on lower reinvestment rates across the euro yield curve; as well as,
- prolonged low reinvestment rates in the U.S.

Year-to-date 2014 compared with year-to-date 2013

Net interest revenue totaled $2.2 billion in the first nine months of 2014, a decrease of 4% compared with the first nine months of 2013, primarily resulting from lower yields on average interest-earning assets, partially offset by balance sheet growth and a shift in the mix of interest-earning assets into higher yielding categories. The net interest margin (FTE) was 0.99% in the first nine months of 2014, a decrease compared with 1.14% in the first nine months of 2013 primarily reflecting higher average interest-earning assets and lower yields.

Average balances and interest rates	Quarter ended								
	Sept. 30, 2014			June 30, 2014			Sept. 30, 2013		
(dollar amounts in millions, presented on an FTE basis)	Average balance	Average rates		Average balance	Average rates		Average balance	Average rates	
Assets									
Interest-earning assets:									
Interest-bearing deposits with banks (primarily foreign banks)	$34,882	0.66	%	$41,424	0.74	%	$41,597	0.66	%
Interest-bearing deposits held at the Federal Reserve and other central banks	88,713	0.23		85,546	0.26		65,704	0.23	
Federal funds sold and securities purchased under resale agreements	15,683	0.61		13,387	0.58		8,864	0.56	
Margin loans	18,108	1.04		17,050	1.05		14,653	1.10	
Non-margin loans:									
Domestic offices	23,826	2.20		22,566	2.30		21,378	2.40	
Foreign offices	12,901	1.30		13,833	1.34		12,225	1.31	
Total non-margin loans	36,727	1.88		36,399	1.94		33,603	2.01	
Securities:									
U.S. Government obligations	23,067	1.38		17,462	1.63		16,540		