Bank of New York Mellon CORP
Form 10-Q
November 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[ü] Quarterly Report Pursuant To Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2012

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 ü 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 ü 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 [ü]	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 ü

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 September 30, 2012
Common Stock, $0.01 par value	1,168,606,959

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THE BANK OF NEW YORK MELLON CORPORATION

Third Quarter 2012 Form 10-Q

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The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited)

(dollar amounts in millions, except per common share amounts and unless otherwise noted)	Quarter ended			Nine months ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	**Sept. 30, 2012**	Sept. 30, 2011
Results applicable to common shareholders of The Bank of New York Mellon Corporation:					
Net income	**$ 720**	$ 466	$ 651	**$ 1,805**	$ 2,011
Basic EPS	**0.61**	0.39	0.53	**1.51**	1.61
Diluted EPS	**0.61**	0.39	0.53	**1.51**	1.61
Fee and other revenue	**$ 2,879**	$ 2,826	$ 2,887	**$ 8,543**	$ 8,781
Income from consolidated investment management funds	**47**	57	32	**147**	205
Net interest revenue	**749**	734	775	**2,248**	2,204
Total revenue	**$ 3,675**	$ 3,617	$ 3,694	**$ 10,938**	$ 11,190
Return on common equity *(annualized) (a)*	**8.3%**	5.5%	7.6%	**7.1%**	8.0%
Non-GAAP adjusted *(a)*	**9.2%**	8.9%	9.0%	**9.0%**	9.4%
Return on tangible common equity *(annualized)* Non-GAAP *(a)*	**22.1%**	15.7%	22.1%	**19.6%**	24.2%
Non-GAAP adjusted *(a)*	**22.5%**	22.4%	23.8%	**22.6%**	25.6%
Return on average assets *(annualized)*	**0.90%**	0.61%	0.83%	**0.78%**	0.95%
Fee revenue as a percentage of total revenue excluding net securities gains (losses)	**78%**	78%	78%	**78%**	78%
Annualized fee revenue per employee (based on average headcount) *(in thousands)*	**$ 235**	$ 233	$ 233	**$ 233**	$ 240
Percentage of non-U.S. total revenue *(b)*	**37%**	37%	39%	**37%**	38%
Pre-tax operating margin *(a)*	**27%**	16%	26%	**22%**	26%
Non-GAAP adjusted *(a)*	**29%**	29%	31%	**29%**	30%
Net interest margin (FTE)	**1.20%**	1.25%	1.30%	**1.25%**	1.39%
Market value of assets under management at period end *(in billions)*	**$ 1,359**	$ 1,299	$ 1,198	**$ 1,359**	$ 1,198
Market value of assets under custody and administration at period end *(in trillions)*	**$ 27.9**	$ 27.1	$ 25.9	**$ 27.9**	$ 25.9
Market value of cross-border assets at period end *(in trillions)*	**$ 10.1**	$ 9.9	$ 9.6	**$ 10.1**	$ 9.6
Market value of securities on loan at period end *(in billions) (c)*	**$ 259**	$ 275	$ 250	**$ 259**	$ 250
Average common shares and equivalents outstanding *(in thousands)*:					
Basic	**1,169,674**	1,181,350	1,214,126	**1,181,614**	1,226,132
Diluted	**1,171,534**	1,182,985	1,215,527	**1,183,309**	1,229,042
Capital ratios *(d)*:					
Estimated Basel III Tier 1 common equity ratio Non-GAAP *(a)(e)*	**9.3%**	8.7%	N/A	**9.3%**	N/A
Basel I Tier 1 common equity to risk-weighted assets ratio Non-GAAP *(a)*	**13.3%**	13.2%	12.5%	**13.3%**	12.5%
Basel I Tier 1 capital ratio	**15.3%**	14.7%	14.0%	**15.3%**	14.0%
Basel I Total (Tier 1 plus Tier 2) capital ratio	**16.9%**	16.4%	16.1%	**16.9%**	16.1%
Basel I leverage capital ratio	**5.6%**	5.5%	5.1%	**5.6%**	5.1%
BNY Mellon shareholders equity to total assets ratio *(a)*	**10.7%**	10.5%	10.5%	**10.7%**	10.5%
BNY Mellon common shareholders equity to total assets ratio *(a)*	**10.3%**	10.3%	10.5%	**10.3%**	10.5%
Tangible BNY Mellon common shareholders equity to tangible assets of operations ratio Non-GAAP *(a)*	**6.3%**	6.1%	5.9%	**6.3%**	5.9%

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The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited) (continued)

(dollar amounts in millions, except per common share amounts and unless otherwise noted)	Quarter ended			Nine months ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	**Sept. 30, 2012**	Sept. 30, 2011
Selected average balances:					
Interest-earning assets	**$ 255,228**	$ 239,755	$ 240,253	**$ 243,814**	$ 213,636
Assets of operations	**$ 307,919**	$ 293,718	$ 298,325	**$ 297,219**	$ 268,847
Total assets	**$ 318,914**	$ 305,002	$ 311,463	**$ 308,459**	$ 282,745
Interest-bearing deposits	**$ 138,260**	$ 130,482	$ 125,795	**$ 131,418**	$ 122,790
Noninterest-bearing deposits	**$ 70,230**	$ 62,860	$ 73,389	**$ 66,581**	$ 51,808
Preferred stock	**$ 611**	$ 60	$ -	**$ 225**	$ -
Total The Bank of New York Mellon Corporation common shareholders equity	**$ 34,522**	$ 34,123	$ 34,008	**$ 34,123**	$ 33,437
Other information at period end:					
Cash dividends per common share	**$ 0.13**	$ 0.13	$ 0.13	**$ 0.39**	$ 0.35
Common dividend payout ratio	**21%**	33%	25%	**26%**	22%
Common dividend yield *(annualized)*	**2.3%**	2.4%	2.8%	**2.3%**	2.5%
Closing common stock price per common share	**$ 22.62**	$ 21.95	$ 18.59	**$ 22.62**	$ 18.59
Market capitalization	**$ 26,434**	$ 25,929	$ 22,543	**$ 26,434**	$ 22,543
Book value per common share GAAP *(a)*	**$ 30.11**	$ 28.81	$ 27.79	**$ 30.11**	$ 27.79
Tangible book value per common share Non-GAAP *(a)*	**$ 12.59**	$ 11.47	$ 10.55	**$ 12.59**	$ 10.55
Full-time employees	**48,700**	48,200	49,600	**48,700**	49,600
Common shares outstanding *(in thousands)*	**1,168,607**	1,181,298	1,212,632	**1,168,607**	1,212,632

(a) See Supplemental information Explanation of Non-GAAP financial measures beginning on page 48 for a calculation of these ratios.

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

(c) Represents the securities on loan managed by the Investment Services business.

(d) When in this Form 10-Q we refer to BNY Mellon s or our bank subsidiary s Basel I capital measures (e.g., Basel I Total capital or Basel I Tier 1 capital), we mean Total or Tier 1 capital, as applicable, as calculated under the Board of Governors of the Federal Reserve System s (the Federal Reserve) risk-based capital guidelines that are based on the 1988 Basel Accord, which is often referred to as Basel I .

(e) The estimated Basel III Tier 1 common equity ratios at Sept. 30, 2012 and June 30, 2012 are based on the Notices of Proposed Rulemaking (NPRs) and final market risk rule initially released on June 7, 2012 and published in the Federal Register on Aug. 30, 2012 and calculated on an Advanced Approaches basis, as amended by Basel III. The estimated Basel III Tier 1 common equity ratio of 6.5% at Sept. 30, 2011 is based on prior Basel III guidance and the proposed market risk rule.

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Part I Financial Information

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

General

In this Quarterly Report on Form 10-Q, references to our, we, us, BNY Mellon, the Company and similar terms refer to The Bank of New Y 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 document are defined in the Glossary included in our Annual Report on Form 10-K for the year ended Dec. 31, 2011 (2011 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, measures which are noted as Non-GAAP 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 Non-GAAP financial measures beginning on page 48 for a reconciliation of financial measures presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP) to adjusted Non-GAAP financial measures.

Overview

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK). BNY Mellon is a global financial services company focused on helping clients manage and service their financial assets, operating in 36 countries and serving more than 100 markets. BNY Mellon is a leading provider of financial services for

institutions, corporations and high-net-worth individuals, offering superior investment management and investment services through a worldwide client-focused team. At Sept. 30, 2012, we had $27.9 trillion in assets under custody and administration and $1.4 trillion in assets under management, serviced $11.6 trillion in outstanding debt and processed global payments averaging $1.4 trillion per day.

Subsequent events

Impact of Hurricane Sandy

Although several of our facilities in the northeastern U.S. were impacted by Hurricane Sandy, our business continuity plans have functioned well and have enabled us to continue to provide high-quality service to our clients. We expect some loss of revenue related to market closures on Oct. 29, 2012 and Oct. 30, 2012 and reduced business activity in the immediate aftermath of the storm. However, we are unable to estimate the loss of revenue and storm-related costs at this time.

Acquisition of remaining 50% interest in WestLB Mellon Asset Management joint venture

On Oct. 1, 2012, BNY Mellon acquired the remaining 50% interest in the WestLB Mellon Asset Management joint venture from Portigon (formerly known as WestLB AG) and consolidated our German Asset Management business. WestLB Mellon Asset Management was formed in early 2006 as a 50:50 joint venture between BNY Mellon and Portigon. At the date of the acquisition, the WestLB Mellon Asset Management joint venture had over 170 employees and more than $29 billion in assets under management.

Highlights of third quarter 2012 results

We reported net income applicable to common shareholders of BNY Mellon of $720 million, or $0.61 per diluted common share in the third quarter of 2012 compared with $651 million, or $0.53 per diluted common share, in the third quarter of 2011 and $466 million, or $0.39 per diluted common share, in the second quarter of 2012.

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Highlights for the third quarter of 2012 include:

- Assets under custody and administration (AUC) totaled a record $27.9 trillion at Sept. 30, 2012 compared with $25.9 trillion at Sept. 30, 2011 and $27.1 trillion at June 30, 2012. This represents an increase of 8% compared with the prior year and 3% sequentially. Both increases were driven by higher market values and net new business. (See the Review of businesses Investment Services business beginning on page 22).
- Assets under management (AUM), excluding securities lending assets, totaled a record $1.4 trillion at Sept. 30, 2012, compared with $1.2 trillion at Sept. 30, 2011 and $1.3 trillion at June 30, 2012. This represents an increase of 13% compared with the prior year and 5% sequentially. Both increases resulted from higher market values and net inflows. (See the Review of businesses Investment Management business beginning on page 19).
- Investment services fees totaled $1.7 billion in the third quarter of 2012 compared with $1.8 billion in the third quarter of 2011. The decrease was primarily driven by lower Depositary Receipts revenue, the impact of the sale of the Shareowner Services business in the fourth quarter of 2011 and lower Corporate Trust fees, partially offset by higher asset servicing and securities lending revenue. (See the Review of businesses Investment Services business beginning on page 22).
- Investment management and performance fees totaled $779 million in the third quarter of 2012 compared with $729 million in the third quarter of 2011. The increase was primarily driven by higher market values and net new business. (See the Review of businesses Investment Management business beginning on page 19).
- Foreign exchange and other trading revenue totaled $182 million in the third quarter of 2012 compared with $200 million in the third quarter of 2011. In the third quarter of 2012, foreign exchange revenue totaled $121 million, a decrease of 45% year-over-year reflecting lower volatility and volumes. Other trading revenue was $61 million in the third quarter of 2012 compared with a loss of $21 million in the third quarter of 2011. The increase primarily reflects improved fixed income trading. (See Fee and other revenue beginning on page 6).
- Investment and other income totaled $124 million in the third quarter of 2012 compared with $83 million in the third quarter of 2011. The increase primarily resulted from higher seed capital gains. (See Fee and other revenue beginning on page 6).
- Net interest revenue totaled $749 million in the third quarter of 2012 compared with $775 million in the third quarter of 2011. The decrease was primarily driven by lower accretion and the elimination of interest on European Central Bank deposits, partially offset by increased investment in high-quality investment securities. The net interest margin (FTE) for the third quarter of 2012 was 1.20% compared with 1.30% in the third quarter of 2011. The decrease primarily reflects lower reinvestment yields, the elimination of interest on European Central Bank deposits, lower accretion and growth in customer deposits. (See Net interest revenue on page 10).
- The provision for credit losses was a credit of $5 million in the third quarter of 2012 primarily resulting from loan sales and repayments. The provision for credit losses in the third quarter of 2011 was a credit of $22 million. (See Consolidated balance sheet review Asset quality and allowance for credit losses beginning on page 34).
- Noninterest expense totaled $2.7 billion in the third quarter of 2012 compared with $2.8 billion in the third quarter of 2011. The decrease primarily reflects lower merger and integration (M&I), litigation and restructuring charges and the sale of the Shareowner Services business, partially offset by the cost of certain tax credits and the benefit of state investment tax credits recorded in the third quarter of 2011. (See Noninterest expense beginning on page 13).
- BNY Mellon recorded an income tax provision of $225 million (23.1% effective tax rate) in the third quarter of 2012 compared with $281 million (29.7% effective tax rate) in the third quarter of 2011. The decrease in the effective tax rate in the third quarter of 2012 was primarily driven by the completion of state audits. (See Income taxes on page 15).
- The unrealized pre-tax gain on our total investment securities portfolio was $2.5 billion at Sept. 30, 2012 compared with $1.4 billion at June 30, 2012. The increase in the valuation of the investment securities portfolio primarily reflects a decline in interest rates and improved credit spreads. (See Consolidated balance sheet review Investment securities beginning on page 29).

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At Sept. 30, 2012, our estimated Basel III Tier 1 common equity ratio was 9.3% compared with 8.7% at June 30, 2012. The increase was primarily due to earnings retention and an increase in the value of the investment portfolio, partially offset by higher risk-weighted assets. (See Capital beginning on page 42).

We generated $780 million of gross Basel I Tier 1 common equity in the third quarter of 2012, primarily driven by earnings. Our Basel I Tier 1 capital ratio was 15.3% at Sept. 30, 2012 compared with 14.0% at Sept. 30, 2011. (See Capital beginning on page 42).

In the third quarter of 2012, we repurchased 13.4 million common shares in the open market at an average price of $21.47 per share for a total of $288 million. (See Capital beginning on page 42).

Fee and other revenue

Fee and other revenue *(a)*

(dollars in millions, unless otherwise noted)	**3Q12**	2Q12	3Q11	**3Q12 vs. 3Q11**	**3Q12 vs. 2Q12**	**Year-to-date 2012**	Year-to-date 2011	**YTD12 vs. YTD11**
Investment services fees:								
Asset servicing *(b)*	**$ 942**	$ 950	$ 922	**2%**	**(1)%**	**$ 2,835**	$ 2,812	**1%**
Issuer services	**311**	275	442	**(30)**	**13**	**837**	1,158	**(28)**
Memo: Issuer services excluding Shareowner Services	*311*	*275*	*400*	*(22)*	*13*	*837*	*1,006*	*(17)*
Clearing services	**287**	309	297	**(3)**	**(7)**	**899**	881	**2**
Treasury services	**138**	134	133	**4**	**3**	**408**	401	**2**
Total investment services fees	**1,678**	1,668	1,794	**(6)**	**1**	**4,979**	5,252	**(5)**
Investment management and performance fees	**779**	797	729	**7**	**(2)**	**2,321**	2,272	**2**
Foreign exchange and other trading revenue	**182**	180	200	**(9)**	**1**	**553**	620	**(11)**
Distribution and servicing	**48**	46	43	**12**	**4**	**140**	145	**(3)**
Financing-related fees	**46**	37	40	**15**	**24**	**127**	132	**(4)**
Investment and other income	**124**	48	83	**N/M**	**N/M**	**311**	309	**1**
Total fee revenue	**2,857**	2,776	2,889	**(1)**	**3**	**8,431**	8,730	**(3)**
Net securities gains (losses)	**22**	50	(2)	**N/M**	**N/M**	**112**	51	**N/M**
Total fee and other revenue GAAP	**2,879**	2,826	2,887		**2**	**8,543**	8,781	**(3)**
Less: Fee and other revenue related to Shareowner Services *(c)*		(3)	44			**(3)**	160	
Total fee and other revenue excluding Shareowner Services Non-GAAP	**$ 2,879**	$ 2,829	$ 2,843	**1%**	**2%**	**$ 8,546**	$ 8,621	**(1)%**
Fee revenue as a percentage of total revenue excluding net securities gains (losses)	**78%**	78%	78%			**78%**	78%	
Market value of AUM at period end *(in billions)*	**$ 1,359**	$ 1,299	$ 1,198	**13%**	**5%**	**$ 1,359**	$ 1,198	**13%**
Market value of AUC and administration at period end *(in trillions)*	**$ 27.9**	$ 27.1	$ 25.9	**8%**	**3%**	**$ 27.9**	$ 25.9	**8%**

(a) See Supplemental information Explanation of Non-GAAP financial measures beginning on page 48 for fee and other revenue excluding Shareowner Services Non-GAAP.

(b) Asset servicing fees include securities lending revenue of $49 million in the third quarter of 2012, $59 million in the second quarter of 2012, $41 million in the third quarter of 2011, $157 million in the first nine months of 2012 and $140 million in the first nine months of 2011.

(c) The Shareowner Services business was sold on Dec. 31, 2011.

N/M Not meaningful.

Fee and other revenue

Fee and other revenue was $2.9 billion in the third quarter of 2012, virtually unchanged compared with the third quarter of 2011 and an increase of 2% (unannualized) sequentially. Excluding the impact of the Shareowner Services business, fee and other revenue increased 1% year-over-year primarily reflecting higher investment management and performance fees and investment and other income, partially offset by lower issuer services fee and foreign exchange and other trading revenue. Sequentially, fee and other revenue increased 2% (unannualized) primarily as a result of higher investment and other income and seasonally higher Depositary Receipts revenue, partially offset by lower net securities gains, clearing services revenue and performance fees.

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Investment services fees

Investment services fees were impacted by the following, compared with the third quarter of 2011 and the second quarter of 2012:

- Asset servicing fees were $942 million, an increase of 2% year-over-year and a decrease of 1% (unannualized) sequentially. The year-over-year increase primarily reflects net new business and higher market values and securities lending revenue. The sequential decrease was primarily driven by a seasonal decrease in securities lending revenue, partially offset by net new business and higher market values.
- Issuer services fees were $311 million, a decrease of 30% year-over-year and an increase of 13% (unannualized) sequentially. Excluding Shareowner Services, Issuer services decreased 22% year-over-year. The year-over-year decrease primarily resulted from lower Depositary Receipts revenue driven by lower volumes, and lower Corporate Trust fees reflecting the continued net run-off of structured debt securitizations. This run-off could reduce the Company s total annual revenue by one-half to three-quarters of 1% if the structured debt markets do not recover. The sequential increase resulted from seasonally higher Depositary Receipts revenue, partially offset by lower Corporate Trust fees.
- Clearing services fees were $287 million, a decrease of 3% year-over-year and 7% (unannualized) sequentially. Both decreases were primarily driven by lower DARTS volume.

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

Investment management and performance fees

Investment management and performance fees were $779 million, an increase of 7% year-over-year and a decrease of 2% (unannualized) sequentially. Performance fees were $10 million in the third quarter of 2012, $11 million in the third quarter of 2011 and $54 million in the second quarter of 2012. Excluding performance fees, investment management fees increased 7% year-over-year and 3% (unannualized) sequentially. Both increases were driven by higher market values and net new business.

Total AUM for the Investment Management business was $1.4 trillion at Sept. 30, 2012, an increase of 13% compared with $1.2 trillion at Sept. 30, 2011 and an increase of 5% compared with $1.3 trillion at June 30, 2012. Both increases resulted from higher market values and net inflows.

See the Investment Management business in Review of businesses for additional details regarding the drivers of investment management and performance fees.

Foreign exchange and other trading revenue

Foreign exchange and other trading revenue

				Year-to-date	
(in millions)	**3Q12**	2Q12	3Q11	**2012**	2011
Foreign exchange	**$ 121**	$ 157	$ 221	**$ 414**	$ 578
Other trading revenue:					
Fixed income	**54**	16	(21)	**117**	24
Credit derivatives/other *(a)*	**7**	7	-	**22**	18
Total other trading revenue	**61**	23	(21)	**139**	42
Total	**$ 182**	$ 180	$ 200	**$ 553**	$ 620

(a) Credit derivatives are used as economic hedges of loans.

Foreign exchange and other trading revenue totaled $182 million in the third quarter of 2012, $200 million in the third quarter of 2011 and $180 million in the second quarter of 2012. In the third quarter of 2012, foreign exchange revenue totaled $121 million, a decrease of 45% year-over-year and 23% (unannualized) sequentially. Both decreases reflect lower volatility and volumes. Additionally, foreign exchange revenue continues to be impacted by increasingly competitive market pressures. Other trading revenue was $61 million in the third quarter of 2012 compared with a loss of $21 million in the third quarter of 2011 and revenue of $23 million in the second quarter of 2012. The increases compared with both prior periods reflect improved fixed income trading. Foreign exchange revenue is primarily reported in the Investment Services business. 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. 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 is 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 plus a pre-negotiated spread. 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 not otherwise eligible for a more favorable rate 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. 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.

We typically price negotiated trades for our custody clients at a spread over either our estimation of the current market rate for a particular currency or an agreed upon third-party benchmark. With respect to our standing instruction program, we typically assign 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 price purchases of currencies at or near the low end of this range and sales of currencies at or near the high end of this range. The standing instruction program Defined Spread Offering prices transactions in each pricing cycle (several times a day in the case of developed market currencies) by adding a predetermined spread 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 shift by custody clients from the standing instruction program to other trading options combined with the increasing competitive market pressures on the foreign exchange business may negatively impact our foreign exchange revenue. For the quarter ended Sept. 30, 2012, our total revenue for all types of foreign exchange trading transactions was $121 million, or approximately 3% of our total revenue. Approximately 41% of our foreign exchange revenue resulted from foreign exchange transactions undertaken through our standing instruction program.

Distribution and servicing fees

Distribution and servicing fee revenue was $48 million in the third quarter of 2012 compared with $43 million in the third quarter of 2011 and $46 million in the second quarter of 2012. The increases primarily reflect higher market values and lower fee waivers.

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 were $46 million in the third quarter of 2012, $40 million in the third quarter of 2011 and $37 million in the second quarter of 2012. Both increases reflect higher capital markets fees. The sequential increase also includes higher credit-related fees.

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Investment and other income

Investment and other income				**Year-to-date**	
(in millions)	**3Q12**	2Q12	3Q11	**2012**	2011
Corporate/bank-owned life insurance	**$ 41**	$ 32	$ 40	**$ 107**	$ 119
Seed capital gains (losses)	**28**		(8)	**52**	(3)
Lease residual gains		3	14	**37**	22
Expense reimbursements from joint ventures	**10**	9	11	**29**	28
Equity investment revenue (loss)	**16**	(5)	12	**17**	36
Asset-related gains	**17**		28	**15**	108
Private equity gains (losses)	**(1)**	1	(7)	**4**	15
Other income (loss)	**13**	8	(7)	**50**	(16)
Total	**$ 124**	$ 48	$ 83	**$ 311**	$ 309

Investment and other income, which is primarily reported in the Other segment and Investment Management business, includes income from insurance contracts, gains and losses on seed capital investments, lease residual gains, expense reimbursements from joint ventures, equity investment revenue or loss, asset-related gains, gains and losses on private equity investments, and other income (loss). Asset-related gains include loan, real estate and other asset dispositions. Expense reimbursements from joint ventures relate to expenses incurred by BNY Mellon on behalf of joint ventures. Other income (loss) primarily includes fees from transitional service agreements, foreign currency remeasurement gain (loss), other investments and various miscellaneous revenues. Investment and other income increased $41 million compared with the third quarter of 2011 and $76 million compared with the second quarter of 2012. The year-over-year increase primarily resulted from higher seed capital gains. Sequentially, the increase primarily resulted from seed capital gains, higher equity investment revenue and higher asset-related gains.

Net securities gains (losses)

Net securities gains totaled $22 million in the third quarter of 2012 compared with net losses of $2 million in the third quarter of 2011 and net gains of $50 million in the second quarter of 2012.

Year-to-date 2012 compared with year-to-date 2011

Fee and other revenue for the first nine months of 2012 totaled $8.5 billion compared with $8.8 billion in the first nine months of 2011. The decrease primarily reflects the impact of the sale of the Shareowner Services business. Excluding the impact of the Shareowner Services business, fee and other revenue decreased 1% primarily reflecting lower issuer services fees and foreign exchange and other trading revenue, offset in part by higher investment management and performance fees and net securities gains.

The decrease in issuer services fees primarily reflects lower Depositary Receipts revenue, as well as lower Corporate Trust fees reflecting the continued net run-off of structured debt securitizations. The decrease in foreign exchange and other trading revenue was driven by lower foreign exchange volatility and volumes, partially offset by higher fixed income revenue. The increase in investment management and performance fees primarily reflects higher performance fees, higher market values and net new business. Net securities gains increased $61 million in the first nine months of 2012 compared with the first nine months of 2011.

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Net interest revenue

Net interest revenue *(a)*				3Q12 vs.		Year-to-date		YTD12 vs.
(dollars in millions)	**3Q12**	2Q12	3Q11	**3Q11**	**2Q12**	**2012**	2011	**YTD11**
Net interest revenue (non-FTE)	**$ 749**	$ 734	$ 775	**(3)%**	**2%**	**$ 2,248**	$ 2,204	**2%**
Tax equivalent adjustment	**16**	13	7	**N/M**	**N/M**	**40**	17	**N/M**
Net interest revenue (FTE) Non-GAAP	**$ 765**	$ 747	$ 782	**(2)%**	**2%**	**$ 2,288**	$ 2,221	**3%**
Average interest-earning assets	**$ 255,228**	$ 239,755	$ 240,253	**6%**	**6%**	**$ 243,814**	$ 213,636	**14%**
Net interest margin (FTE)	**1.20%**	1.25%	1.30%	**(10) bps**	**(5) bps**	**1.25%**	1.39%	**(14) bps**

bps basis points.

FTE fully taxable equivalent.

N/M Not meaningful.

Net interest revenue totaled $749 million in the third quarter of 2012, a decrease of $26 million compared with the third quarter of 2011 and an increase of $15 million sequentially. The year-over-year decrease in net interest revenue was primarily driven by lower accretion and the elimination of interest on European Central Bank deposits, partially offset by increased investment in high-quality investment securities. The increase compared with the second quarter of 2012 primarily reflects higher interest-earning assets driven by higher deposit levels, partially offset by the elimination of interest on European Central Bank deposits.

The net interest margin (FTE) was 1.20% in the third quarter of 2012 compared with 1.30% in the third quarter of 2011 and 1.25% in the second quarter of 2012. The decreases in net interest margin (FTE) compared with both prior periods primarily reflect

lower reinvestment yields, the elimination of interest on European Central Bank deposits, lower accretion and growth in customer deposits.

Year-to-date 2012 compared with year-to-date 2011

Net interest revenue totaled $2.2 billion in the first nine months of 2012, an increase of 2% compared with the first nine months of 2011. The increase primarily reflects higher average client deposits, increased investment in higher quality investment securities and higher loan levels, partially offset by narrower spreads and lower accretion. The net interest margin (FTE) was 1.25% in the first nine months of 2012, compared with 1.39% in the first nine months of 2011. The decline was primarily driven by lower accretion, lower reinvestment yields and increased client deposits which were invested in lower-yielding assets.

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Average balances and interest rates

Average balances and interest rates	Quarter ended					
	Sept. 30, 2012		June 30, 2012		Sept. 30, 2011	
(dollar amounts in millions)	**Average balance**	**Average rates**	Average balance	Average rates	Average balance	Average rates
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks (primarily foreign banks)	**$ 41,201**	**0.96%**	$ 38,474	0.98%	$ 60,412	1.00%
Interest-bearing deposits held at the Federal Reserve and other central banks	**61,849**	**0.21**	57,904	0.27	61,115	0.31
Federal funds sold and securities purchased under resale agreements	**5,315**	**0.64**	5,493	0.62	4,865	0.71
Margin loans	**13,033**	**1.30**	13,331	1.27	9,379	1.34
Non-margin loans:						
Domestic offices	**18,821**	**2.63**	19,663	2.52	21,583	2.43
Foreign offices	**10,574**	**1.61**	9,998	1.86	9,527	1.52
Total non-margin loans	**29,395**	**2.26**	29,661	2.30	31,110	2.15
Securities:						
U.S. government obligations	**18,917**	**1.38**	15,387	1.65	14,079	1.57
U.S. government agency obligations	**41,430**	**1.94**	39,070	2.23	20,998	2.93
State and political subdivisions tax exempt	**5,933**	**2.57**	4,777	2.65	1,611	4.13
Other securities	**33,724**	**2.51**	32,625	2.51	34,175	3.30
Trading securities	**4,431**	**2.40**	3,033	2.57	2,509	2.62
Total securities	**104,435**	**2.06**	94,892	2.26	73,372	2.86
Total interest-earning assets	**$ 255,228**	**1.40%**	$ 239,755	1.48%	$ 240,253	1.55%
Allowance for loan losses	**(361)**		(382)		(437)	
Cash and due from banks	**4,276**		4,412		5,204	
Other assets	**48,776**		49,933		53,305	
Assets of consolidated investment management funds	**10,995**		11,284		13,138	
Total assets	**$ 318,914**		$ 305,002		$ 311,463	
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Money market rate and demand deposit accounts	**$ 9,724**	**0.23%**	$ 8,421	0.24%	$ 4,611	0.35%
Savings	**730**	**0.17**	702	0.13	1,613	0.12
Time deposits	**34,193**	**0.07**	33,180	0.11	35,991	0.07
Foreign offices	**93,613**	**0.10**	88,179	0.13	83,580	0.26
Total interest-bearing deposits	**138,260**	**0.10**	130,482	0.13	125,795	0.21
Federal funds purchased and securities sold under repurchase agreements	**10,092**	**(0.06)**	11,254	0.01	10,164	0.03
Trading liabilities	**1,397**	**1.87**	1,256	1.87	1,911	1.25
Other borrowed funds	**887**	**1.31**	1,114	1.88	1,956	0.87
Commercial paper	**968**	**0.12**	1,436	0.29	300	0.08
Payables to customers and broker-dealers	**8,141**	**0.10**	7,895	0.10	7,692	0.10
Long-term debt	**19,535**	**1.66**	20,084	1.67	18,256	1.60
Total interest-bearing liabilities	**$ 179,280**	**0.28%**	$ 173,521	0.32%	$ 166,074	0.37%
Total noninterest-bearing deposits	**70,230**		62,860		73,389	
Other liabilities	**23,712**		23,588		25,462	
Liabilities and obligations of consolidated investment management funds	**9,686**		10,072		11,728	
Total liabilities	**282,908**		270,041		276,653	
Temporary equity						
Redeemable noncontrolling interests	**134**		78		61	
Permanent equity						
Total BNY Mellon shareholders equity	**35,133**		34,183		34,008	
Noncontrolling interests	**739**		700		741	
Total permanent equity	**35,872**		34,883		34,749	
Total liabilities, temporary equity and permanent equity	**$ 318,914**		$ 305,002		$ 311,463	

Net interest margin (FTE)	**1.20%**	1.25%	1.30%

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

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Average balances and interest rates	Nine months ended			
	Sept. 30, 2012		Sept. 30, 2011	
(dollar amounts in millions)	**Average balance**	**Average rates**	Average balance	Average rates
Assets				
Interest-earning assets:				
Interest-bearing deposits with banks (primarily foreign banks)	**$ 38,267**	**1.07%**	$ 59,124	0.96%
Interest-bearing deposits held at the Federal Reserve and other central banks	**61,096**	**0.25**	38,666	0.31
Federal funds sold and securities purchased under resale agreements	**5,327**	**0.66**	4,653	0.56
Margin loans	**13,089**	**1.29**	8,798	1.38
Non-margin loans:				
Domestic offices	**19,534**	**2.54**	21,509	2.51
Foreign offices	**10,252**	**1.74**	9,495	1.50
Total non-margin loans	**29,786**	**2.26**	31,004	2.20
Securities:				
U.S. government obligations	**17,197**	**1.52**	13,759	1.60
U.S. government agency obligations	**37,630**	**2.18**	20,564	3.01
State and political subdivisions tax exempt	**4,693**	**2.69**	1,038	4.88
Other securities	**33,397**	**2.62**	33,006	3.34
Trading securities	**3,332**	**2.55**	3,024	2.49
Total securities	**96,249**	**2.26**	71,391	2.89
Total interest-earning assets	**$ 243,814**	**1.48%**	$ 213,636	1.68%
Allowance for loan losses	**(378)**		(465)	
Cash and due from banks	**4,320**		4,548	
Other assets	**49,463**		51,128	
Assets of consolidated investment management funds	**11,240**		13,898	
Total assets	**$ 308,459**		$ 282,745	
Liabilities				
Interest-bearing liabilities:				
Interest-bearing deposits:				
Money market rate and demand deposit accounts	**$ 7,557**	**0.24%**	$ 4,738	0.38%
Savings	**693**	**0.14**	1,564	0.12
Time deposits	**33,666**	**0.09**	34,336	0.09
Foreign offices	**89,502**	**0.13**	82,152	0.24
Total interest-bearing deposits	**131,418**	**0.13**	122,790	0.20
Federal funds purchased and securities sold under repurchase agreements	**9,977**	**(0.02)**	8,762	0.05
Trading liabilities	**1,269**	**1.77**	2,063	1.79
Other borrowed funds	**1,502**	**1.17**	1,872	1.16
Commercial paper	**824**	**0.22**	114	0.09
Payables to customers and broker-dealers	**7,865**	**0.10**	7,082	0.10
Long-term debt	**20,051**	**1.71**	17,555	1.70
Total interest-bearing liabilities	**172,906**	**0.32%**	160,238	0.38%
Total noninterest-bearing deposits	**66,581**		51,808	
Other liabilities	**23,850**		23,848	
Liabilities and obligations of consolidated investment management funds	**9,971**		12,598	
Total liabilities	**273,308**		248,492	
Temporary equity				
Redeemable noncontrolling interests	**94**		67	
Permanent equity				
Total BNY Mellon shareholders equity	**34,348**		33,437	
Noncontrolling interests	**709**		749	
Total permanent equity	**35,057**		34,186	
Total liabilities, temporary equity and permanent equity	**$ 308,459**		$ 282,745	
Net interest margin (FTE)		**1.25%**		1.39%

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

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Noninterest expense

Noninterest expense *(dollars in millions)*	**3Q12**	2Q12	3Q11	**3Q12 vs. 3Q11**	**3Q12 vs. 2Q12**	**Year-to-date 2012**	Year-to-date 2011	**YTD12 vs. YTD11**
Staff:								
Compensation	**$ 893**	$ 866	$ 903	**(1)%**	**3%**	**$ 2,620**	$ 2,682	**(2)%**
Incentives	**306**	311	328	**(7)**	**(2)**	**969**	981	**(1)**
Employee benefits	**237**	238	226	**5**		**715**	681	**5**
Total staff	**1,436**	1,415	1,457	**(1)**	**1**	**4,304**	4,344	**(1)**
Professional, legal and other purchased services	**292**	309	311	**(6)**	**(6)**	**900**	895	**1**
Net occupancy	**149**	141	151	**(1)**	**6**	**437**	465	**(6)**
Software	**127**	127	113	**12**		**373**	356	**5**
Distribution and servicing	**109**	103	100	**9**	**6**	**313**	320	**(2)**
Furniture and equipment	**81**	82	80	**1**	**(1)**	**249**	246	**1**
Sub-custodian	**65**	70	80	**(19)**	**(7)**	**205**	236	**(13)**
Business development	**60**	71	57	**5**	**(15)**	**187**	186	**1**
Other	**265**	254	224	**18**	**4**	**739**	700	**6**
Amortization of intangible assets	**95**	97	106	**(10)**	**(2)**	**288**	322	**(11)**
M&I, litigation and restructuring charges	**26**	378	92	**N/M**	**N/M**	**513**	214	**N/M**
Total noninterest expense GAAP	**$ 2,705**	$ 3,047	$ 2,771	**(2)%**	**(11)%**	**$ 8,508**	$ 8,284	**3%**
Total staff expense as a percent of total revenue	**39%**	39%	39%			**39%**	39%	
Full-time employees at period end	**48,700**	48,200	49,600	**(2)%**	**1%**	**48,700**	49,600	**(2)%**

N/M Not meaningful.

Noninterest expense excluding Shareowner Services *(dollars in millions)*	**3Q12**	2Q12	3Q11	**3Q12 vs. 3Q11**	**3Q12 vs. 2Q12**	**Year-to-date 2012**	Year-to-date 2011	**YTD12 vs. YTD11**
Staff:								
Compensation	**$ 893**	$ 866	$ 889	**%**	**3%**	**$ 2,620**	$ 2,639	**(1)%**
Incentives	**306**	311	327	**(6)**	**(2)**	**969**	977	**(1)**
Employee benefits	**237**	238	222	**7**		**715**	670	**7**
Total staff	**1,436**	1,415	1,438		**1**	**4,304**	4,286	
Professional, legal and other purchased services	**292**	309	300	**(3)**	**(6)**	**900**	861	**5**
Net occupancy	**149**	141	149		**6**	**437**	457	**(4)**
Software	**127**	127	110	**15**		**373**	348	**7**
Distribution and servicing	**109**	103	100	**9**	**6**	**313**	320	**(2)**
Furniture and equipment	**81**	82	79	**3**	**(1)**	**249**	244	**2**
Sub-custodian	**65**	70	80	**(19)**	**(7)**	**205**	236	**(13)**
Business development	**60**	71	57	**5**	**(15)**	**187**	185	**1**
Other	**265**	254	223	**19**	**4**	**739**	681	**9**
Subtotal	**2,584**	2,572	2,536	**2**		**7,707**	7,618	**1**
Amortization of intangible assets	**95**	97	103	**(8)**	**(2)**	**288**	312	**(8)**
M&I, litigation and restructuring charges	**26**	378	92	**N/M**	**N/M**	**513**	214	**N/M**
Total noninterest expense Non-GAAP	**$ 2,705**	$ 3,047	$ 2,731	**(1)%**	**(11)%**	**$ 8,508**	$ 8,144	**4%**
Total staff expense as a percent of total revenue	**39%**	39%	39%			**39%**	39%	
Full-time employees at period end	**48,700**	48,200	48,700	**%**	**1%**	**48,700**	48,700	**%**

N/M Not meaningful.

Total noninterest expense decreased 2% compared with the third quarter of 2011 and 11% (unannualized) compared with the second quarter of 2012. Both decreases primarily reflect lower litigation charges. Excluding amortization of intangible assets, M&I, litigation and restructuring charges and the direct expenses related to Shareowner Services, noninterest expense increased 2% year-over-year and was flat sequentially. The year-over-year increase reflects the cost of

generating certain tax credits in the third quarter of 2012 and the benefit of state investment tax credits recorded in the third quarter of 2011. Sequentially, decreases in professional, legal and other purchased services and business development expenses were offset by the annual employee merit increase and support agreement charges.

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Staff expense

Given our mix of fee-based businesses, which are staffed with high-quality professionals, staff expense comprised 56% of total noninterest expense excluding amortization of intangible assets and M&I, litigation and restructuring charges in the third quarter of 2012, 57% in the third quarter of 2011 and 55% in the second quarter of 2012.

Staff expense totaled $1.4 billion in the third quarter of 2012, a decrease of 1% compared with the third quarter of 2011 and an increase of 1% (unannualized) compared with the second quarter of 2012. The year-over-year decrease in staff expense primarily reflects the impact of the sale of the Shareowner Services business. The sequential increase was driven by the annual employee merit increase given in the third quarter.

Non-staff expense

Non-staff expense, excluding amortization of intangible assets and M&I, litigation and restructuring charges totaled $1.1 billion in the third quarter of 2012, an increase of 3% compared with the third quarter of 2011 and a decrease of 1% (unannualized) compared with the second quarter of 2012. The increase in non-staff expense year-over-year primarily reflects the cost of generating certain tax credits in the third quarter of 2012 and the benefit of state investment tax credits recorded in the third quarter of 2011, partially offset by the impact of the sale of the Shareowner Services business. The sequential decrease was driven by lower professional, legal and other purchased services and

business development expenses, partially offset by support agreement charges.

On July 5, 2012, BNY Mellon, N.A. and The Bank of New York Mellon entered into a settlement agreement related to a previously disclosed class action lawsuit pending in federal court in Oklahoma and initiated by CompSource Oklahoma concerning losses in connection with the investment of securities lending collateral in Sigma Finance Inc. (Sigma). The company recorded a pre-tax charge in the second quarter of 2012 of approximately $350 million primarily related to claims involving Sigma investments.

The financial services industry has seen a continuing increase in the level of litigation activity. As a result, we anticipate our legal and litigation costs to continue at elevated levels. For additional information on litigation matters, see Note 18 of the Notes to Consolidated Financial Statements.

Year-to-date 2012 compared with year-to-date 2011

Noninterest expense in the first nine months of 2012 increased 3% compared with the first nine months of 2011. The increase primarily reflects higher litigation charges, higher professional, legal and other professional services, the cost of generating certain tax credits in the first nine months of 2012, the benefit of state investment tax credits recorded in the third quarter of 2011 and higher software expenses, partially offset by the sale of the Shareowner Services business and lower volume-driven expenses and lower compensation expense.

Operational excellence initiatives update

Expense initiatives (pre-tax)	**Program savings**				**Annualized targeted savings**
(dollar amounts in millions)	1Q12	2Q12	**3Q12**	**through 3Q12**	**by the end of 2012**
Business operations	$ 45	$ 55	$ 63	$ 163	$ 225 - $ 240
Technology	16	21	21	58	$ 75 - $ 85
Corporate services	14	18	21	53	$ 60 - $ 65
Gross savings *(a)*	75	94	105	274	$ 360 - $ 390
Less: Incremental program costs *(b)*	5	23	23	51	$ 120 - $ 130
Net savings *(c)*	$ 70	$ 71	$ 82	$ 223	$ 240 - $ 260

(a) Represents the estimated pre-tax run rate expense savings since program inception in 2011. Total Company actual operating expense may increase or decrease due to other factors.

(b) Represents incremental program costs incurred to implement the operational excellence initiatives. These costs will fluctuate by quarter.

(c) Net savings cannot be annualized due to the variability of program costs.

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As a result of our operational excellence initiatives, we are currently on track to achieve our anticipated pre-tax savings of $240-$260 million in 2012 on an annualized pre-tax basis.

Through Sept. 30, 2012, we accomplished the following operational excellence initiatives:

Business Operations

- Consolidated Treasury Services functions (e.g., check processing and lockbox operations) in our Pittsburgh Service Center.
- Continued global footprint positions migration. Lowered operating costs as we began to ramp up the Eastern European Global Delivery Center.
- Reengineered Dreyfus and Global Fund Accounting operations to reduce headcount.
- Realized synergies in custody operations and clearing related to the Global Investment Servicing (GIS) acquisition.
- Completed client conversions related to our BHF Asset Servicing GmbH acquisition.

Technology

- Migrated GIS systems to BNY Mellon platforms over 95% of the production applications have been successfully migrated as of Sept. 30, 2012.
- Insourced software engineers to Global Delivery Centers.
- Standardized infrastructure through server elimination and software rationalization.

Corporate Services

- Consolidated offices in Los Angeles, New York and the EMEA region.
- Benefited from the enhanced global procurement program.

Income taxes

The effective tax rate was 23.1% in the third quarter of 2012. The lower than expected effective tax rate primarily reflects the benefit of completing state audits. The effective tax rate was 29.7% in the third quarter of 2011 and 15.8% in the second quarter of 2012. The effective tax rate in the second quarter of 2012 included the benefit of certain tax credits.

We expect the tax rate to be approximately 27%-28% in the fourth quarter of 2012.

Under U.S. tax law, income from certain non-U.S. subsidiaries has not been subject to U.S. income tax as result of a deferral provision applicable to income that is derived in active conduct of a banking and

financing business. This active financing deferral provision for these foreign subsidiaries expired for tax years beginning on Jan. 1, 2012. We do not anticipate a material impact to our 2012 financial statements if the law is not extended and will monitor the financial statement impact for subsequent years.

Review of businesses

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

Organization of our business

On Dec. 31, 2011, BNY Mellon sold its Shareowner Services business. In the first quarter of 2012, we reclassified the results of the Shareowner Services business from the Investment Services business to the Other segment. The reclassification did not impact the consolidated results. All prior periods have been restated.

Business accounting principles

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

For additional information on the accounting principles of our businesses, the primary types of revenue by business and how our businesses are presented and analyzed, see Note 19 of the Notes to Consolidated Financial Statements.

The results of our businesses may be influenced by client activities that vary by quarter. In the second quarter, we typically experience an increase in securities lending fees due to an increase in demand to borrow securities outside of the United States. In the third quarter, depositary receipts revenue is typically higher due to an increased level of client dividend payments paid in the quarter. Also in the third quarter, volume-related fees may decline due to reduced client activity. In our Investment Management business, performance fees are typically higher in the fourth quarter, as the fourth quarter represents the end of the measurement period for many of the performance fee-eligible relationships.

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The following table presents the value of certain market indices at period end and on an average basis.

Market indices	3Q11	4Q11	1Q12	2Q12	**3Q12**	**3Q12 vs. 3Q11**	**3Q12 vs. 2Q12**	**Year-to-date 2012**	**Year-to-date 2011**	**YTD12 vs. YTD11**
S&P 500 Index *(a)*	1131	1258	1408	1362	**1441**	**27%**	**6%**	**1441**	1131	**27%**
S&P 500 Index daily average	1227	1224	1347	1351	**1400**	**14**	**4**	**1366**	1282	**7**
FTSE 100 Index *(a)*	5128	5572	5768	5571	**5742**	**12**	**3**	**5742**	5128	**12**
FTSE 100 Index daily average	5470	5424	5818	5555	**5742**	**5**	**3**	**5708**	5767	**(1)**
MSCI World Index *(a)*	1104	1183	1312	1236	**1312**	**19**	**6**	**1312**	1104	**19**
MSCI World Index daily average	1217	1169	1268	1235	**1273**	**5**	**3**	**1258**	1289	**(2)**
Barclays Capital Aggregate Bond[SM] Index *(a)*	346	347	351	353	**368**	**6**	**4**	**368**	346	**6**
NYSE and NASDAQ share volume *(in billions)*	250	206	186	192	**173**	**(31)**	**(10)**	**550**	688	**(20)**
JPMorgan G7 Volatility Index daily average *(b)*	12.60	12.95	10.39	10.30	**8.70**	**(31)**	**(16)**	**9.80**	11.64	**(16)**

(a) Period end.
(b) The JPMorgan G7 Volatility Index is based on the implied volatility in 3-month currency options.

Fee revenue in Investment Management, and to a lesser extent Investment Services, is impacted by the value of market indices. At Sept. 30, 2012, using the S&P 500 Index as a proxy for the global equity markets, we estimate that a 100-point change in the value of the S&P 500 Index, sustained for one year,

would impact fee revenue by approximately 1% and diluted earnings per common share by \$0.03 to \$0.05. If global equity markets over- or under-perform the S&P 500 Index, the impact to fee revenue and earnings per share could be different.

The following consolidating schedules show the contribution of our businesses to our overall profitability.

For the quarter ended Sept. 30, 2012

(dollar amounts in millions)	**Investment Management**	**Investment Services**	**Other**	**Consolidated**
Fee and other revenue	**$ 872***(a)*	**$ 1,879**	**$ 150**	**$ 2,901***(a)*
Net interest revenue	**52**	**608**	**89**	**749**
Total revenue	**924**	**2,487**	**239**	**3,650**
Provision for credit losses		**(4)**	**(1)**	**(5)**
Noninterest expense	**692**	**1,782**	**231**	**2,705**
Income (loss) before taxes	**$ 232***(a)*	**$ 709**	**$ 9**	**$ 950***(a)*
Pre-tax operating margin *(b)*	**25%**	**29%**	**N/M**	**26%**
Average assets	**$ 35,775**	**$ 224,289**	**$ 58,850**	**$ 318,914**
Excluding amortization of intangible assets:				
Noninterest expense	**$ 644**	**$ 1,735**	**$ 231**	**$ 2,610**
Income (loss) before taxes	**280***(a)*	**756**	**9**	**1,045***(a)*
Pre-tax operating margin *(b)*	**30%**	**30%**	**N/M**	**29%**

(a) Total fee and other revenue includes income from consolidated investment management funds of \$47 million, net of noncontrolling interests of \$25 million, for a net impact of \$22 million. Income before taxes includes noncontrolling interests of \$25 million.
(b) Income before taxes divided by total revenue.
N/M Not meaningful.

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For the quarter ended June 30, 2012

(dollar amounts in millions)	**Investment Management**	**Investment Services**	**Other**	**Consolidated**
Fee and other revenue	$ 861*(a)*	$ 1,881	$ 112	$ 2,854*(a)*
Net interest revenue	52	607	75	734
Total revenue	913	2,488	187	3,588
Provision for credit losses	-	(14)	(5)	(19)
Noninterest expense	690	2,146	211	3,047
Income (loss) before taxes	$ 223*(a)*	$ 356	$ (19)	$ 560*(a)*
Pre-tax operating margin *(b)*	24%	14%	N/M	16%
Average assets	$ 35,970	$ 209,454	$ 59,578	$ 305,002
Excluding amortization of intangible assets:				
Noninterest expense	$ 642	$ 2,097	$ 211	$ 2,950
Income (loss) before taxes	271*(a)*	405	(19)	657*(a)*
Pre-tax operating margin *(b)*	30%	16%	N/M	18%

(a) Total fee and other revenue includes income from consolidated investment management funds of $57 million, net of noncontrolling interests of $29 million, for a net impact of $28 million. Income before taxes includes noncontrolling interests of $29 million.
(b) Income before taxes divided by total revenue.
N/M Not meaningful.

For the quarter ended Sept. 30, 2011

(dollar amounts in millions)	**Investment Management**	**Investment Services**	**Other**	**Consolidated**
Fee and other revenue	$ 757*(a)*	$ 2,028	$ 121	$ 2,906*(a)*
Net interest revenue	51	661	63	775
Total revenue	808	2,689	184	3,681
Provision for credit losses	-	-	(22)	(22)
Noninterest expense	675	1,898	198	2,771
Income (loss) before taxes	$ 133*(a)*	$ 791	$ 8	$ 932*(a)*
Pre-tax operating margin *(b)*	16%	29%	N/M	25%
Average assets	$ 36,949	$ 220,930	$ 53,584	$ 311,463
Excluding amortization of intangible assets:				
Noninterest expense	$ 622	$ 1,849	$ 194	$ 2,665
Income (loss) before taxes	186*(a)*	840	12	1,038*(a)*
Pre-tax operating margin *(b)*	23%	31%	N/M	28%

(a) Total fee and other revenue includes income from consolidated investment management funds of $32 million, net of noncontrolling interests of $13 million, for a net impact of $19 million. Income before taxes includes noncontrolling interests of $13 million.
(b) Income before taxes divided by total revenue.
N/M Not meaningful.

For the nine months ended Sept. 30, 2012

(dollar amounts in millions)	**Investment Management**	**Investment Services**	**Other**	**Consolidated**
Fee and other revenue	**$ 2,585***(a)*	**$ 5,612**	**$ 428**	**$ 8,625***(a)*
Net interest revenue	**159**	**1,857**	**232**	**2,248**

Total revenue		**2,744**		**7,469**		**660**		**10,873**
Provision for credit losses		**-**		**(2)**		**(17)**		**(19)**
Noninterest expense		**2,049**		**5,755**		**704**		**8,508**
Income (loss) before taxes	**$**	**695***(a)*	**$**	**1,716**	**$**	**(27)**	**$**	**2,384***(a)*
Pre-tax operating margin *(b)*		**25%**		**23%**		**N/M**		**22%**
Average assets	**$**	**36,071**	**$**	**215,991**	**$**	**56,397**	**$**	**308,459**
Excluding amortization of intangible assets:								
Noninterest expense	**$**	**1,905**	**$**	**5,611**	**$**	**704**	**$**	**8,220**
Income (loss) before taxes		**839***(a)*		**1,860**		**(27)**		**2,672***(a)*
Pre-tax operating margin *(b)*		**31%**		**25%**		**N/M**		**25%**

(a) Total fee and other revenue includes income from consolidated investment management funds of $147 million, net of noncontrolling interests of $65 million, for a net impact of $82 million. Income before taxes includes noncontrolling interests of $65 million.
(b) Income before taxes divided by total revenue.
N/M Not meaningful.

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For the nine months ended Sept. 30, 2011

(dollar amounts in millions)	Investment Management	Investment Services	Other	Consolidated
Fee and other revenue	$ 2,487 *(a)*	$ 5,884	$ 537	$ 8,908 *(a)*
Net interest revenue	151	1,931	122	2,204
Total revenue	2,638	7,815	659	11,112
Provision for credit losses	1	-	(23)	(22)
Noninterest expense	2,051	5,477	756	8,284
Income (loss) before taxes	$ 586 *(a)*	$ 2,338	$ (74)	$ 2,850 *(a)*
Pre-tax operating margin *(b)*	22%	30%	N/M	26%
Average assets	$ 37,000	$ 196,447	$ 49,298	$ 282,745
Excluding amortization of intangible assets:				
Noninterest expense	$ 1,890	$ 5,328	$ 744	$ 7,962
Income (loss) before taxes	747*(a)*	2,487	(62)	3,172*(a)*
Pre-tax operating margin *(b)*	28%	32%	N/M	29%

(a) *Total fee and other revenue includes income from consolidated investment management funds of $205 million, net of noncontrolling interests of $78 million, for a net impact of $127 million. Income before taxes includes noncontrolling interests of $78 million.*

(b) *Income before taxes divided by total revenue.*

N/M *Not meaningful.*

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Investment Management business

(dollar amounts in millions, unless otherwise noted)	3Q11	4Q11	1Q12	2Q12	**3Q12**	**3Q12 vs. 3Q11**	**3Q12 vs. 2Q12**	**Year-to-date 2012**	**Year-to-date 2011**	**YTD12 vs. YTD11**
Revenue:										
Investment management fees:										
Mutual funds	$ 263	$ 237	$ 260	$ 270	**$ 283**	**8%**	**5%**	**$ 813**	$ 836	**(3)%**
Institutional clients	311	299	322	321	**334**	**7**	**4**	**977**	949	**3**
Wealth management	157	154	157	158	**158**	**1**	**-**	**473**	484	**(2)**
Investment management fees	731	690	739	749	**775**	**6**	**3**	**2,263**	2,269	**-**
Performance fees	11	47	16	54	**10**	**(9)**	**(81)**	**80**	46	**74**
Distribution and servicing	41	41	45	45	**47**	**15**	**4**	**137**	140	**(2)**
Other *(a)*	(26)	(11)	52	13	**40**	**N/M**	**N/M**	**105**	32	**N/M**
Total fee and other revenue *(a)*	757	767	852	861	**872**	**15**	**1**	**2,585**	2,487	**4**
Net interest revenue	51	55	55	52	**52**	**2**	**-**	**159**	151	**5**
Total revenue	808	822	907	913	**924**	**14**	**1**	**2,744**	2,638	**4**
Provision for credit losses	-	-	-	-	**-**	**-**	**-**	**-**	1	**N/M**
Noninterest expense (ex. amortization ofintangible assets)	622	632	619	642	**644**	**4**	**-**	**1,905**	1,890	**1**
Income before taxes (ex.amortization of intangible assets)	186	190	288	271	**280**	**51**	**3**	**839**	747	**12**
Amortization of intangible assets	53	53	48	48	**48**	**(9)**	**-**	**144**	161	**(11)**
Income before taxes	$ 133	$ 137	$ 240	$ 223	**$ 232**	**74%**	**4%**	**$ 695**	$ 586	**19%**
Pre-tax operating margin	16%	17%	26%	24%	**25%**			**25%**	22%	
Pre-tax operating margin (ex. amortization of intangible assets and net of distribution and servicing expense) *(b)*	26%	26%	36%	34%	**34%**			**34%**	32%	
Wealth management:										
Average loans	$ 6,958	$ 7,209	$ 7,430	$ 7,763	**$ 8,122**	**17%**	**5%**	**$ 7,773**	$ 6,890	**13%**
Average deposits	$ 10,392	$ 11,761	$ 11,491	$ 11,259	**$ 11,372**	**9%**	**1%**	**$ 11,374**	$ 9,558	**19%**

(a) Total fee and other revenue includes the impact of the consolidated investment management funds. See Supplemental information Explanation of Non-GAAP financial measures beginning on page 48. Additionally, other revenue includes asset servicing and treasury services revenue.

(b) Distribution and servicing expense is netted with the distribution and servicing revenue for the purpose of this calculation of pre-tax operating margin. Distribution and servicing expense totaled $99 million, $95 million, $100 million, $102 million, $107 million, $309 million and $317 million, respectively.

N/M Not meaningful.

AUM trends *(a)* *(dollar amounts in billions)*	3Q11	4Q11	1Q12	2Q12	**3Q12**	**3Q12 vs. 3Q11**	**3Q12 vs. 2Q12**
AUM at period end, by product type:							
Equity securities	$ 354	$ 390	$ 429	$ 417	**$ 446**	**26%**	**7%**
Fixed income securities	419	437	451	480	**506**	**21**	**5**
Money market	321	328	319	299	**307**	**(4)**	**3**
Alternative investments and overlay	104	105	109	103	**100**	**(4)**	**(3)**
Total AUM	$ 1,198	$ 1,260	$ 1,308	$ 1,299	**$ 1,359**	**13%**	**5%**
AUM at period end, by client type:							
Institutional	$ 719	$ 757	$ 829	$ 835	**$ 883**	**23%**	**6%**
Mutual funds	406	427	404	388	**398**	**(2)**	**3**
Private client	73	76	75	76	**78**	**7**	**3**
Total AUM	$ 1,198	$ 1,260	$ 1,308	$ 1,299	**$ 1,359**	**13%**	**5%**
Changes in market value of AUM:							
Beginning balance	$ 1,274	$ 1,198	$ 1,260	$ 1,308	**$ 1,299**		
Net inflows (outflows):							
Long-term	4	16	7	26	**9**		

Money market	(15)	7	(9)	(14)	**9**		
Total net inflows (outflows)	(11)	23	(2)	12	**18**		
Net market/currency impact	(65)	39	50	(21)	**42**		
Ending balance	$ 1,198	$ 1,260	$ 1,308	$ 1,299	**$ 1,359**	**13%**	**5%**

(a) Excludes securities lending cash management assets.

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Business description

Our Investment Management business is comprised of our affiliated investment management boutiques and wealth management business. See page 19 of the 2011 Annual Report for additional information on our Investment Management business.

Review of financial results

Investment management and performance fees are dependent on the overall level and mix of AUM and the management fees expressed in basis points (one-hundredth of one percent) charged for managing those assets. Assets under management were a record $1.4 trillion at Sept. 30, 2012 compared with $1.2 trillion at Sept. 30, 2011 and $1.3 trillion at June 30, 2012. The increase compared with both prior periods resulted from higher market values and net inflows. Long-term inflows and short-term inflows each totaled $9 billion in the third quarter of 2012. Long-term inflows benefited from fixed income and active equities.

Revenue generated in the Investment Management business includes 44% from non-U.S. sources in the third quarter of 2012 compared with 42% in the third quarter of 2011 and 44% in the second quarter of 2012.

In the third quarter of 2012, the Investment Management business had pre-tax income of $232 million compared with $133 million in the third quarter of 2011 and $223 million in the second quarter of 2012. Excluding amortization of intangible assets, pre-tax income was $280 million in the third quarter of 2012 compared with $186 million in the third quarter of 2011 and $271 million in the second quarter of 2012. Investment Management results improved compared with the prior year period primarily reflecting higher seed capital gains, higher market values, net new business and lower money market fee waivers. The sequential improvement in the Investment Management results primarily reflects higher seed capital gains, higher market values and net new business, partially offset by lower performance fees. Year-over-year, the Investment Management business generated positive operating leverage of 1,000 basis points, or 500 basis points excluding the net impact of seed capital gains.

Investment management fees in the Investment Management business were $775 million in the third quarter of 2012 compared with $731 million in the

third quarter of 2011 and $749 million in the second quarter of 2012. The increases compared with both prior periods were driven by higher market values and net new business.

Performance fees were $10 million in the third quarter of 2012 compared with $11 million in the third quarter of 2011 and $54 million in the second quarter of 2012. The sequential decrease primarily reflects measurement periods for certain investment strategies which end in the second quarter.

In the third quarter of 2012, 37% of investment management fees in the Investment Management business were generated from managed mutual fund fees. These fees are based on the daily average net assets of each fund and the management fee paid by that fund. Managed mutual fund fee revenue was $283 million in the third quarter of 2012 compared with $263 million in the third quarter of 2011 and $270 million in the second quarter of 2012. The increases compared with both prior periods were driven by higher market values and net new business. The year-over-over increase also resulted from lower money market fee waivers.

Distribution and servicing fees were $47 million in the third quarter of 2012 compared with $41 million in the third quarter of 2011 and $45 million in the second quarter of 2012. The increase from both prior periods reflects new business. The year-over-year increase also reflects lower money market fee waivers.

Other fee revenue was $40 million in the third quarter of 2012 compared with a loss of $26 million in the third quarter of 2011 and revenue of $13 million in the second quarter of 2012. The increases compared with both prior periods primarily reflect higher seed capital gains.

Net interest revenue was $52 million in the third quarter of 2012 compared with $51 million in the third quarter of 2011 and $52 million in the second quarter of 2012. The year-over-year increase primarily resulted from higher average loans and deposits, partially offset by tighter spreads. Average loans increased 17% year-over-year and 5% sequentially; average deposits increased 9% year-over-year and 1% sequentially.

Noninterest expense (excluding amortization of intangible assets) was $644 million in the third quarter of 2012 compared with $622 million in the third quarter of 2011 and $642 million in the second

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quarter of 2012. The year-over-year increase primarily resulted from higher distribution and servicing expense and the annual employee merit increase effective in the third quarter of 2012. Sequentially, noninterest expenses were well-controlled.

Year-to-date 2012 compared with year-to-date 2011

Income before taxes totaled $695 million in the first nine months of 2012 compared with $586 million in the first nine months of 2011. Income before taxes (excluding intangible amortization) was $839 million in the first nine months of 2012 compared with $747 million in the first nine months of 2011. Fee and other revenue increased $98 million compared to the first nine months of 2011, primarily due to higher seed capital gains, higher market values and net new business, partially offset by higher money market fee waivers. Net interest revenue increased $8 million compared to the first nine months of 2011 primarily as a result of higher average loans and deposits, partially offset by tighter spreads. Noninterest expense (excluding intangible amortization) increased $15 million compared to first nine months of 2011, primarily due to the impact of the annual employee merit increase effective in the third quarter of 2012.

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Investment Services business

						3Q12 vs.		Year-to-date		YTD12 vs.
(dollar amounts in millions, unless otherwise noted)	3Q11	4Q11	1Q12	2Q12	**3Q12**	**3Q11**	**2Q12**	**2012**	2011	**YTD11**
Revenue:										
Investment services fees:										
Asset servicing	$ 894	$ 858	$ 915	$ 920	**$ 912**	**2%**	**(1)%**	**$ 2,747**	$ 2,727	**1%**
Issuer services	401	245	251	275	**310**	**(23)**	**13**	**836**	1,007	**(17)**
Clearing services	297	278	303	309	**287**	**(3)**	**(7)**	**899**	881	**2**
Treasury services	132	133	136	132	**135**	**2**	**2**	**403**	399	**1**
Total investment services fees	1,724	1,514	1,605	1,636	**1,644**	**(5)**	**-**	**4,885**	5,014	**(3)**
Foreign exchange and other trading revenue	236	196	176	179	**158**	**(33)**	**(12)**	**513**	648	**(21)**
Other *(a)*	68	71	71	66	**77**	**13**	**17**	**214**	222	**(4)**
Total fee and other revenue *(a)*	2,028	1,781	1,852	1,881	**1,879**	**(7)**	**-**	**5,612**	5,884	**(5)**
Net interest revenue	661	634	642	607	**608**	**(8)**	**-**	**1,857**	1,931	**(4)**
Total revenue	2,689	2,415	2,494	2,488	**2,487**	**(8)**	**-**	**7,469**	7,815	**(4)**
Provision for credit losses	-	-	16	(14)	**(4)**	**N/M**	**N/M**	**(2)**	-	**N/M**
Noninterest expense (ex. amortization of intangible assets)	1,849	1,706	1,779	2,097	**1,735**	**(6)**	**(17)**	**5,611**	5,328	**5**
Income before taxes (ex. amortization of intangible assets)	840	709	699	405	**756**	**(10)**	**87**	**1,860**	2,487	**(25)**
Amortization of intangible assets	49	50	48	49	**47**	**(4)**	**(4)**	**144**	149	**(3)**
Income before taxes	$ 791	$ 659	$ 651	$ 356	**$ 709**	**(10)%**	**99%**	**$ 1,716**	$ 2,338	**(27)%**
Pre-tax operating margin	29%	27%	26%	14%	**29%**			**23%**	30%	
Pre-tax operating margin (ex. amortization of intangible assets)	31%	29%	28%	16%	**30%**			**25%**	32%	
Investment services fees as a percentage of noninterest expense *(b)*	98%	90%	94%	94%	**96%**			**95%**	97%	
Securities lending revenue	$ 32	$ 35	$ 39	$ 48	**$ 37**	**16%**	**(23)%**	**$ 124**	$ 111	**12%**
Metrics:										
Market value of assets under custody and administration at period-end *(in trillions) (c)*	$ 25.9	$ 25.8	$ 26.6	$ 27.1	**$ 27.9**	**8%**	**3%**	**$ 27.9**	$ 25.9	**8%**
Market value of securities on loan at period-end *(in billions) (d)*	$ 250	$ 269	$ 265	$ 275	**$ 259**	**4%**	**(6)%**	**$ 259**	$ 250	**4%**
Average loans	$ 22,879	$ 26,804	$ 25,902	$ 24,981	**$ 24,361**	**6%**	**(2)%**	**$ 25,079**	$ 22,116	**13%**
Average deposits	$ 181,848	$ 188,539	$ 175,055	$ 172,435	**$ 188,036**	**3%**	**9%**	**$ 178,544**	$ 158,507	**13%**
Asset servicing:										
New business wins (AUC) *(in billions)*	$ 96	$ 431	$ 453	$ 314	**$ 522**					
Corporate Trust:										
Total debt serviced *(in trillions)*	$ 11.9	$ 11.8	$ 11.9	$ 11.5	**$ 11.6**	**(3)%**	**1%**			
Number of deals administered	134,843	133,850	133,319	133,301	**131,754**	**(2)%**	**(1)%**			
Depositary Receipts:										
Number of sponsored programs	1,384	1,389	1,391	1,393	**1,393**	**1%**	**-%**			
Clearing services:										
DARTS volume *(in thousands)*	207.7	178.7	196.6	189.8	**172.7**	**(17)%**	**(9)%**			
Average active clearing accounts U.S. *(in thousands)*	5,503	5,429	5,413	5,427	**5,452**	**(1)%**	**-%**			
	$ 287,573	$ 287,562	$ 306,212	$ 306,973	**$ 323,289**	**12%**	**5%**			

Average long-term mutual fund assets *(U.S. platform)*							
Average margin loans	$ 7,351	$ 7,548	$ 7,900	$ 8,231	**$ 7,922**	**8%**	**(4)%**
Broker-Dealer:							
Average collateral management balances *(in billions)*	$ 1,872	$ 1,866	$ 1,929	$ 1,997	**$ 2,009**	**7%**	**1%**
Treasury services:							
Global payments transaction volume *(in thousands)*	11,088	10,856	10,838	11,117	**11,289**	**2%**	**2%**

(a) Total fee and other revenue includes investment management fees and distribution and servicing revenue.
(b) Noninterest expense excludes amortization of intangible assets, support agreement charges and litigation expense.
(c) Includes the assets under custody or administration of CIBC Mellon Global Securities Services Company, a joint venture with the Canadian Imperial Bank of Commerce, of $1.0 trillion at Sept. 30, 2011, $1.1 trillion at Dec. 31, 2011, $1.2 trillion at March 31, 2012, June 30, 2012 and Sept. 30, 2012.
(d) Represents the total amount of securities on loan managed by the Investment Services business.

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Business description

Our Investment Services business provides global custody and related services, broker-dealer services, collateral services, alternative investment services, corporate trust and depositary receipt, as well as clearing services and global payment/working capital solutions to institutional clients. See page 22 of the 2011 Annual Report for additional information on our Investment Services business.

We are one of the leading global securities servicing providers with a record level of $27.9 trillion of assets under custody and administration at Sept. 30, 2012. We are the largest custodian for U.S. corporate and public pension plans, and we service 44% of the top 50 endowments. We are one of the largest global providers of performance and risk analytics reporting, with $9.6 trillion in assets under measurement. We are a leading custodian in the UK and service 20% of UK pensions that require a custodian. European asset servicing continues to grow across all products, reflecting significant cross-border investment and capital flows.

We are one of the largest providers of fund services in the world, servicing over $6.5 trillion in assets. We are the third largest fund administrator in the alternative investment services industry and service 41% of the funds in the U.S. exchange-traded funds marketplace.

BNY Mellon is a leader in both global securities and U.S. Government securities clearance. We clear and settle equity and fixed income transactions in over 100 markets and handle most of the transactions cleared through the Federal Reserve Bank of New York for 17 of the 21 primary dealers. We are an industry leader in collateral management, servicing on average $2.0 trillion in global collateral, including tri-party repo collateral worldwide. We currently service approximately $1.4 trillion of the $1.8 trillion tri-party repo market in the U.S.

BNY Mellon offers tri-party agent services to dealers and cash investors active in the tri-party repurchase, or tri-party repo, market. We currently have an approximately 80% market share of the U.S. tri-party repo market. As a tri-party repo agent, we facilitate settlement between dealers (cash borrowers) and investors (cash lenders). Our involvement in a transaction commences after a dealer and a cash investor agree to a tri-party repo trade and send instructions to us. We maintain custody of the collateral (the subject securities of the repo)

and execute the payment and delivery instructions agreed to and provided by the principals.

BNY Mellon is working to implement recommendations by the U.S. Tri-Party Repo Infrastructure Reform Task Force to significantly reduce the secured intraday credit we provide. BNY Mellon has implemented several measures in that regard, including: (1) a later day unwind for most maturing tri-party repos to reduce the time of our exposure, (2) an auto collateral exchange process that allows dealers to replace pledged collateral by first over-collateralizing with cash, and (3) a three-way trade confirmation process known as automated deal matching to ensure accuracy and transparency.

In securities lending, we are one of the largest lenders of U.S. Treasury securities and depositary receipts and service a lending pool of approximately $3 trillion in 28 markets.

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

BNY Mellon provides the infrastructure, technology and processing services for debt capital markets transactions. We service $11.6 trillion in outstanding debt from 61 locations in 20 countries.

We serve as depositary for 1,393 sponsored American and global depositary receipt programs at Sept. 30, 2012, acting in partnership with leading companies from more than 68 countries a 61% global market share.

With a network of more than 2,000 correspondent financial institutions, we help clients in their efforts to optimize cash flow, manage liquidity and make payments more efficiently around the world in more than 100 currencies. We are the fifth largest Fedwire and CHIPS payment processor, processing about 170,000 global payments daily totaling an average of $1.4 trillion.

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Pershing LLC (Pershing), our clearing service, takes a consultative approach, working with more than 1,500 financial organizations and 100,000 investment professionals who collectively represent approximately 5.5 million active accounts by delivering dependable operational support; robust trading services; flexible technology; an expansive array of investment solutions, including managed accounts, mutual funds and cash management; practice management support; and service excellence.

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

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

Review of financial results

Assets under custody and administration at Sept. 30, 2012 were a record $27.9 trillion, an increase of 8% from $25.9 trillion at Sept. 30, 2011 and 3% from $27.1 trillion at June 30, 2012. Both increases were driven by higher market values and net new business. Assets under custody and administration were comprised of 32% equity securities and 68% fixed income securities at Sept. 30, 2012, 28% equity securities and 72% fixed income securities at Sept. 30, 2011 and 31% equity securities and 69% fixed income securities at June 30, 2012. Assets under custody and administration at Sept. 30, 2012 consisted of assets related to custody, mutual funds and corporate trust businesses of $22.1 trillion, broker-dealer service assets of $3.6 trillion, and all other assets of $2.2 trillion.

Income before taxes was $709 million in the third quarter of 2012 compared with $791 million in the third quarter of 2011 and $356 million in the second quarter of 2012. Income before taxes, excluding amortization of intangible assets, was $756 million in the third quarter of 2012 compared with $840 million in the third quarter of 2011 and $405 million in the second quarter of 2012. The decrease compared with the prior year period primarily reflects lower Depositary Receipts revenue, lower foreign exchange and other trading revenue, lower net interest revenue and the impact of the sale of the Shareowner Services business in the fourth quarter of 2011, partially offset by lower litigation expense. The sequential increase primarily reflects lower litigation expense and seasonally higher Depositary Receipts revenue, which was partially offset by lower Clearing Services revenue, and a seasonal decrease in securities lending revenue.

Revenue generated in the Investment Services businesses includes 37% from non-U.S. sources in the third quarter of 2012, 40% in the third quarter of 2011 and 36% in the second quarter of 2012.

Investment services fees decreased $80 million, or 5%, compared with the third quarter of 2011 and increased $8 million, or less than 1% (unannualized), sequentially. The fluctuations were driven by the following:

- Asset servicing revenue (global custody, broker-dealer services and alternative investment services) was $912 million in the third quarter of 2012 compared with $894 million in the third quarter of 2011 and $920 million in the second quarter of 2012. The year-over-year increase primarily reflects net new business and higher market values and securities lending revenue. The sequential decrease was primarily driven by a seasonal decrease in securities lending revenue, partially offset by net new business and higher market values. In the third quarter of 2012, we had $522 billion of new business wins in assets under custody.
- Issuer services fees (Corporate Trust and Depositary Receipts) were $310 million in the third quarter of 2012 compared with $401 million in the third quarter of 2011 and $275 million in the second quarter of 2012. The year-over-year decrease primarily resulted from lower Depositary Receipts revenue driven by lower volumes, and lower Corporate Trust fees reflecting the continued net run-off of structured debt securitizations. This run-off could reduce

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the Company s total annual revenue by one-half to three-quarters of 1% if the structured debt markets do not recover. The increase sequentially resulted from seasonally higher Depositary Receipts revenue, partially offset by lower Corporate Trust fees.

Clearing services fees (Pershing) were $287 million in the third quarter of 2012 compared with $297 million in the third quarter of 2011 and $309 million in the second quarter of 2012. Both decreases were primarily driven by lower DARTS volume.

Foreign exchange and other trading revenue was $158 million in the third quarter of 2012 compared with $236 million in the third quarter of 2011 and $179 million in the second quarter of 2012. The decreases compared with both prior periods reflect lower volatility and volumes.

Net interest revenue was $608 million in the third quarter of 2012 compared with $661 million in the third quarter of 2011 and $607 million in the second quarter of 2012. The year-over-year decrease reflects lower yields, partially offset by higher average deposits.

The provision for credit losses was a credit of $4 million in the third quarter of 2012, primarily resulting from loan sales.

Noninterest expense (excluding amortization of intangible assets) was $1.7 billion in the third quarter of 2012 compared with $1.8 billion in the third quarter of 2011 and $2.1 billion in the second quarter of 2012. The decreases compared with both prior periods primarily reflect lower litigation expense and continued expense control.

Year-to-date 2012 compared with year-to-date 2011

Income before taxes totaled $1.7 billion in the first nine months of 2012 compared with $2.3 billion in the first nine months of 2011. Excluding intangible amortization, income before taxes decreased $627 million. Fee and other revenue decreased $272 million reflecting lower Depositary Receipts revenue and Corporate Trust fees, and lower foreign exchange revenue due primarily to a decline in volatility and volumes, partially offset by higher Clearing Services revenue and net new business. The $74 million decrease in net interest revenue was primarily due to lower spreads and yields, partially offset by higher average deposits and loans. Noninterest expense (excluding intangible amortization) increased $283 million primarily due to higher litigation expenses.

Other segment

						Year-to-date	
(dollars in millions)	3Q11	4Q11	1Q12	2Q12	**3Q12**	**2012**	2011
Revenue:							
Fee and other revenue	$ 121	$ 240	$ 166	$ 112	**$ 150**	**$ 428**	$ 537
Net interest revenue	63	91	68	75	**89**	**232**	122
Total revenue	184	331	234	187	**239**	**660**	659
Provision for credit losses	(22)	23	(11)	(5)	**(1)**	**(17)**	(23)
Noninterest expense (ex. amortization of intangible assets, M&I and restructuring charges)	182	245	253	189	**218**	**660**	703
Income (loss) before taxes (ex. amortization of intangible assets, M&I and restructuring charges)	24	63	(8)	3	**22**	**17**	(21)
Amortization of intangible assets	4	3	-	-	**-**	**-**	12
M&I and restructuring charges	12	139	9	22	**13**	**44**	41
Income (loss) before taxes	$ 8	$ (79)	$ (17)	$ (19)	**$ 9**	**$ (27)**	$ (74)
Average loans and leases	$ 10,652	$ 10,223	$ 9,877	$ 10,248	**$ 9,945**	**$ 10,023**	$ 10,796

See page 24 of the 2011 Annual Report for a description of the Other segment. On Dec. 31, 2011, BNY Mellon sold its Shareowner Services business. In the first quarter of 2012, we reclassified the results of the Shareowner Services business to the Other segment from the Investment Services business.

Review of financial results

Income before taxes was $9 million in the third quarter of 2012 compared with $8 million in the third quarter of 2011 and a loss of $19 million in the second quarter of 2012.

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Total fee and other revenue increased $29 million compared with the third quarter of 2011 and $38 million compared with the second quarter of 2012. The year-over-year increase reflects improved fixed income trading and higher net securities gains, partially offset by the impact of the sale of the Shareowner Service business in the fourth quarter of 2011. The sequential increase was driven by higher equity investment revenue, improved fixed income trading and higher asset-related gains, partially offset by lower net securities gains.

Noninterest expense (excluding amortization of intangible assets and M&I and restructuring charges) increased $36 million compared with the third quarter of 2011 and $29 million compared with the second quarter of 2012. The increase compared with the prior year period resulted from the cost of generating certain tax credits in the third quarter of 2012 and the benefit of state investment tax credits recorded in the third quarter of 2011 and higher equipment and software expense, partially offset by the impact of the sale of the Shareowner Services business. The sequential increase primarily reflects higher staff expense.

Year-to-date 2012 compared with year-to-date 2011

Income before taxes in the Other segment was a loss of $27 million in the first nine months of 2012 compared with a loss of $74 million in the first nine months of 2011. Total revenue increased $1 million as higher net interest revenue and higher fixed income trading more than offset the impact of the sale of the Shareowner Services business and lower equity investment revenue. Noninterest expenses (excluding amortization of intangible assets and M&I and restructuring charges) decreased $43 million, reflecting the impact of the sale of the Shareowner Services business, partially offset by the costs of certain tax credits.

Critical accounting estimates

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements contained in the 2011 Annual Report. Our more critical accounting estimates are those related to the allowance for loan losses and allowance for lending-related commitments, fair value of financial instruments, other-than-temporary impairment (OTTI), goodwill and other intangibles and pension accounting, as referenced below.

Critical policy	Reference
Allowance for loan losses and allowance for lending-related commitments	2011 Annual Report, pages 29 and 30.
Fair value of financial instruments	2011 Annual Report, pages 30 through 32.
OTTI	2011 Annual Report, page 32. See page 31 of this Form 10-Q for the impact of market assumptions on portions of our securities portfolio.
Goodwill and other intangibles	2011 Annual Report, pages 32 through 34 and Second quarter 2012 Form 10-Q pages 27-28.
Pension accounting	2011 Annual Report, pages 34 and 35.

Consolidated balance sheet review

At Sept. 30, 2012, total assets were $340 billion compared with $325 billion at Dec. 31, 2011. The increase in consolidated total assets resulted from increases in federal funds purchased and securities sold under repurchase agreements and client deposits. Deposits totaled $223 billion at Sept. 30, 2012 and $219 billion at Dec. 31, 2011. At Sept. 30, 2012, total interest-bearing deposits were 53% of total interest-earning assets. Federal funds purchased and securities sold under repurchase agreements were $12 billion at Sept. 30, 2012, compared with $6 billion at Dec. 31, 2011. The increase primarily reflects attractive overnight rate opportunities. Total assets averaged $319 billion in the third quarter of 2012 compared with $311 billion in the third quarter of 2011 and $305 billion in the second quarter of 2012. The fluctuations compared with both prior periods primarily reflect an increase in the levels of client deposits. Total deposits averaged $208 billion in the third quarter of 2012, $199 billion in the third quarter of 2011 and $193 billion in the second quarter of 2012.

At Sept. 30, 2012, we had approximately $46 billion of liquid funds and $78 billion of cash (including $73 billion of overnight deposits with the Federal Reserve and other central banks) for a total of $124 billion of available funds. This compares with available funds of $135 billion at Dec. 31, 2011. Our percentage of liquid assets to total assets was 37% at Sept. 30, 2012 compared with 42% at Dec. 31, 2011. The decreases in available funds and liquid assets to total assets were primarily due to increased investments in agency residential mortgage-backed (RMBS), state and political subdivisions and U.S. Treasury securities, and higher loan levels. At Sept. 30, 2012, we held $46 billion in liquid funds, $41 billion are placed in interest-bearing deposits with large, highly rated global financial institutions with a weighted-average life to maturity of 45 days. Of the $41 billion, $10 billion was placed with banks in the Eurozone.

Investment securities were $104 billion, or 31% of total assets, at Sept. 30, 2012 compared with $82 billion, or 25% of total assets, at Dec. 31, 2011. The increase primarily reflects larger investments in agency RMBS, state and political subdivision and U.S. Treasury securities, as well as an improvement in the unrealized gain of our investment securities portfolio.

Loans were $46 billion, or 13% of total assets, at Sept. 30, 2012 compared with $44 billion, or 14% of total assets, at Dec. 31, 2011. The increase in loan levels primarily reflects higher overdrafts and wealth management loans and mortgages.

Long-term debt decreased to $19.5 billion at Sept. 30, 2012 from $19.9 billion at Dec. 31, 2011, primarily due to the maturity of $1.4 billion of senior debt and $300 million of subordinated debt as well as the redemption of $500 million of junior subordinated debentures, partially offset by the issuance of $1.75 billion of senior debt in the first nine months of 2012.

Total shareholders equity applicable to BNY Mellon was $36.2 billion at Sept. 30, 2012 and $33.4 billion at Dec. 31, 2011. The increase in total shareholders equity primarily reflects earnings retention, an increase in the valuation of our investment securities portfolio and the issuance of noncumulative perpetual preferred stock, partially offset by share repurchases. In the first nine months of 2012, we issued $1,036 million, net of issuance costs, of noncumulative perpetual preferred stock which qualifies as Tier 1 capital under the recently released NPRs.

BNY Mellon, through its involvement in the Fixed Income Clearing Corporation, settles government securities transactions on a net basis for payment and delivery through the Fedwire system. As a result, at Sept. 30, 2012, the assets and liabilities of BNY Mellon were reduced by $140 million for the netting of repurchase agreements and reverse repurchase agreement transactions executed with the same counterparty under standardized Master Repurchase Agreements.

Exposure in Ireland, Italy, Spain, Portugal and Greece

The following tables present our on- and off-balance sheet exposure in Ireland, Italy, Spain, Portugal and Greece at Sept. 30, 2012 and Dec. 31, 2011. We have provided expanded disclosure on these countries as they have experienced particular market focus on credit quality and are countries experiencing economic concerns. Where appropriate, we are offsetting the risk associated with the gross exposure in these countries with collateral that has been pledged, which primarily consists of cash or marketable securities, or by transferring the risk to a third-party guarantor in another country.

BNY Mellon has a limited economic interest in the performance of assets of consolidated investment management funds, and therefore they are excluded from this presentation. The liabilities of consolidated investment management funds represent the interest of the noteholders of the funds and are solely dependent on the value of the assets. Any loss in the value of assets of consolidated investment management funds would be incurred by the fund s noteholders.

At Sept. 30, 2012, BNY Mellon had no exposure to Portugal and at Dec. 31, 2011, BNY Mellon had no exposure to Greece. Additionally, BNY Mellon had no sovereign exposure to the countries disclosed below at either Sept. 30, 2012 or Dec. 31, 2011.

Our exposure to Ireland is principally related to Irish-domiciled investment funds. Servicing provided to these funds and fund families may result in overdraft exposure.

See Risk management in the 2011 Annual Report for additional information on how our exposures are managed.

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Exposure in the tables below reflects the country of operations and risk of the immediate counterparty.

On- and off-balance sheet exposure at Sept. 30, 2012

(in millions)	**Ireland**	**Italy**	**Spain**	**Greece**	**Total**
On-balance sheet exposure					
Gross:					
Interest-bearing deposits with banks *(a)*	$ 101	$ 145	$ -	$ -	$ 246
Investment securities (primarily European Floating Rate Notes) *(b)*	156	130	25	-	311
Loans and leases *(c)*	424	475	76	33	1,008
Trading assets *(d)*	36	39	15	-	90
Total gross on-balance sheet exposure	717	789	116	33	1,655
Less:					