

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

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
*(State or other jurisdiction of
incorporation or organization)*

13-2614959
(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

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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 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 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

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

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

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Table of Contents**The Bank of New York Mellon Corporation****Consolidated Financial Highlights (unaudited)**

	Quarter ended			Nine months ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
<i>(dollar amounts in millions, except per common share amounts and unless otherwise noted)</i>					
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 <i>(annualized) (a)</i>	8.3%	5.5%	7.6%	7.1%	8.0%
Non-GAAP adjusted <i>(a)</i>	9.2%	8.9%	9.0%	9.0%	9.4%
Return on tangible common equity <i>(annualized) Non-GAAP (a)</i>	22.1%	15.7%	22.1%	19.6%	24.2%
Non-GAAP adjusted <i>(a)</i>	22.5%	22.4%	23.8%	22.6%	25.6%
Return on average assets <i>(annualized)</i>	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) <i>(in thousands)</i>	\$ 235	\$ 233	\$ 233	\$ 233	\$ 240
Percentage of non-U.S. total revenue <i>(b)</i>	37%	37%	39%	37%	38%
Pre-tax operating margin <i>(a)</i>	27%	16%	26%	22%	26%
Non-GAAP adjusted <i>(a)</i>	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 <i>(in billions)</i>	\$ 1,359	\$ 1,299	\$ 1,198	\$ 1,359	\$ 1,198
Market value of assets under custody and administration at period end <i>(in trillions)</i>	\$ 27.9	\$ 27.1	\$ 25.9	\$ 27.9	\$ 25.9
Market value of cross-border assets at period end <i>(in trillions)</i>	\$ 10.1	\$ 9.9	\$ 9.6	\$ 10.1	\$ 9.6
Market value of securities on loan at period end <i>(in billions) (c)</i>	\$ 259	\$ 275	\$ 250	\$ 259	\$ 250
Average common shares and equivalents outstanding <i>(in thousands)</i> :					
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 <i>(d)</i>:					
Estimated Basel III Tier 1 common equity ratio Non-GAAP <i>(a)(e)</i>	9.3%	8.7%	N/A	9.3%	N/A
Basel I Tier 1 common equity to risk-weighted assets ratio Non-GAAP <i>(a)</i>	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 <i>(a)</i>	10.7%	10.5%	10.5%	10.7%	10.5%
BNY Mellon common shareholders' equity to total assets ratio <i>(a)</i>	10.3%	10.3%	10.5%	10.3%	10.5%
Tangible BNY Mellon common shareholders' equity to tangible assets of operations ratio Non-GAAP <i>(a)</i>	6.3%	6.1%	5.9%	6.3%	5.9%

Table of Contents**The Bank of New York Mellon Corporation****Consolidated Financial Highlights (unaudited)** (continued)

(dollar amounts in millions, except per common share)

	Quarter ended			Nine months ended	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
<i>amounts and unless otherwise noted</i>					
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 York Mellon Corporation and its consolidated subsidiaries. The term Parent refers to The Bank of New York Mellon Corporation but not its subsidiaries.

Certain business terms used in this 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

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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 Depository 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)**

	3Q12	2Q12	3Q11	3Q12 vs.		Year-to-date		YTD12
				3Q11	2Q12	2012	2011	vs.
								YTD11
<i>(dollars in millions, unless otherwise noted)</i>								
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)
<i>Memo: Issuer services excluding Shareowner Services</i>								
Clearing services	311	275	400	(22)	13	837	1,006	(17)
Treasury services	287	309	297	(3)	(7)	899	881	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

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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 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 Depository 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 Depository 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**

<i>(in millions)</i>	3Q12	2Q12	3Q11	Year-to-date	
Foreign exchange	\$ 121	\$ 157	\$ 221	2012	2011
Other trading revenue:				\$ 414	\$ 578
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

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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

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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.

Table of Contents*Investment and other income*

Investment and other income <i>(in millions)</i>	3Q12	2Q12	3Q11	Year-to-date	
				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 Depository 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.

Table of Contents**Net interest revenue****Net interest revenue (a)**

<i>(dollars in millions)</i>	3Q12	2Q12	3Q11	3Q12 vs.		Year-to-date		YTD12
				3Q11	2Q12	2012	2011	vs. 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.

Table of Contents**Average balances and interest rates****Average balances and interest rates**

	Sept. 30, 2012		Quarter ended June 30, 2012		Sept. 30, 2011	
	Average balance	Average rates	Average balance	Average rates	Average balance	Average rates
<i>(dollar amounts in millions)</i>						
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	

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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	
	Average balance	Average rates	Average balance	Average rates
<i>(dollar amounts in millions)</i>				
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.

Table of Contents**Noninterest expense**

Noninterest expense (dollars in millions)	3Q12	2Q12	3Q11	3Q12 vs.		Year-to-date		YTD12 vs. YTD11
				3Q11	2Q12	2012	2011	
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.		Year-to-date		YTD12 vs. YTD11
				3Q11	2Q12	2012	2011	
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.

Table of Contents*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
	1Q12	2Q12	3Q12	through 3Q12	targeted savings
<i>(dollar amounts in millions)</i>					
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, depository 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						3Q12 vs.		Year-to-date		YTD12 vs.
	3Q11	4Q11	1Q12	2Q12	3Q12	3Q11	2Q12	2012	2011	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.

Table of Contents**For the quarter ended June 30, 2012**

<i>(dollar amounts in millions)</i>	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

<i>(dollar amounts in millions)</i>	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

<i>(dollar amounts in millions)</i>	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

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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

<i>in millions)</i>	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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					3Q12 vs.		Year-to-date		YTD12	
<i>(dollar amounts in millions, unless otherwise noted)</i>	3Q11	4Q11	1Q12	2Q12	3Q12	3Q11	2Q12	2012	2011	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 of intangible 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.	
AUM at period end, by product type:						3Q11	2Q12
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		

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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 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.

Table of Contents*Investment Services business*

<i>(dollar amounts in millions, unless otherwise noted)</i>	3Q11	4Q11	1Q12	2Q12	3Q12	3Q12 vs. 3Q11	2Q12	Year-to-date 2012	2011	YTD12 vs. 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)%			
Depository 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%			

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Average long-term mutual fund assets (U.S. platform)

Average margin loans	\$	7,351	\$	7,548	\$	7,900	\$	8,231	\$	7,922	8%	(4)%
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Broker-Dealer:

Average collateral management balances (in billions)

Average collateral management balances (in billions)	\$	1,872	\$	1,866	\$	1,929	\$	1,997	\$	2,009	7%	1%
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Treasury services:

Global payments transaction volume (in thousands)	11,088	10,856	10,838	11,117	11,289	2%	2%
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(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 Depository 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 Depository 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 Depository 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 Depository 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 Depository 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 Depository 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

<i>(dollars in millions)</i>	3Q11	4Q11	1Q12	2Q12	3Q12	Year-to-date	
						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

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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

Allowance for loan losses and allowance for lending-related commitments

Fair value of financial instruments

OTTI

Goodwill and other intangibles

Pension accounting

Consolidated balance sheet review

Reference

2011 Annual Report, pages 29 and 30.

2011 Annual Report, pages 30 through 32.

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.

2011 Annual Report, pages 32 through 34 and Second quarter 2012 Form 10-Q pages 27-28.

2011 Annual Report, pages 34 and 35.

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

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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

<i>(in millions)</i>	Ireland	Italy	Spain	Greece	Total
On-balance sheet exposure					
Gross:					
Interest-bearing deposits with banks <i>(a)</i>	\$ 101	\$ 145	\$ -	\$ -	\$ 246
Investment securities (primarily European Floating Rate Notes) <i>(b)</i>	156	130	25	-	311
Loans and leases <i>(c)</i>	424	475	76	33	1,008
Trading assets <i>(d)</i>	36	39	15	-	90
Total gross on-balance sheet exposure	717	789	116	33	1,655
Less:					
Collateral	74	38	6	-	118
Guarantees	-	2	1	-	3
Total collateral and guarantees	74	40	7	-	121
Total net on-balance sheet exposure	\$ 643	\$ 749	\$ 109	\$ 33	\$ 1,534
Off-balance sheet exposure					
Gross:					
Lending-related commitments <i>(e)</i>	\$ 101	\$ -	\$ -	\$ -	\$ 101
Letters of credit <i>(f)</i>	71	4	14	-	89
Total gross off-balance sheet exposure	172	4	14	-	190
Less:					
Collateral	90	-	14	-	104
Total net off-balance sheet exposure	\$ 82	\$ 4	\$ -	\$ -	\$ 86
Total exposure:					
Total gross on- and off-balance sheet exposure	\$ 889	\$ 793	\$ 130	\$ 33	\$ 1,845
Less: Total collateral and guarantees	164	40	21	-	225
Total net on- and off-balance sheet exposure	\$ 725	\$ 753	\$ 109	\$ 33	\$ 1,620

- (a) Interest-bearing deposits with banks represent a \$100 million placement with an Irish subsidiary of a UK holding company and \$146 million of nostro accounts related to our custody business.*
- (b) Represents \$284 million, fair value, of residential mortgage-backed securities located in Ireland, Italy and Spain, of which 72% were investment grade, \$24 million, fair value, of investment grade asset-backed CLOs located in Ireland, and \$3 million, fair value, of money market fund investments located in Ireland.*
- (c) Loans and leases include \$357 million of overdrafts primarily to Irish-domiciled investment funds resulting from our custody business, a \$67 million commercial lease to an Irish company, which was fully collateralized by U.S. Treasuries, a \$473 million overdraft to a financial institution located in Italy, \$75 million of custody overdrafts primarily to financial institutions located in Spain, a \$33 million overdraft to a telecommunications customer in our Corporate Trust business located in Greece and \$3 million of leases to airline manufacturing companies located in Italy and Spain, which are under joint and several guarantee arrangements with guarantors outside of the Eurozone. There is no impairment associated with these loans and leases. Overdrafts occur on a daily basis in our Investment Services businesses and are generally repaid within two business days. The overdrafts in Italy, Spain and Greece have been repaid.*
- (d) Trading assets represent over-the-counter mark-to-market on foreign exchange and interest rate receivables, net of master netting agreements. Trading assets include \$36 million of receivables primarily due from Irish-domiciled investment funds and \$54 million of receivables due from financial institutions in Italy and Spain. Cash collateral on the trading assets totaled \$7 million in Ireland, \$38 million in Italy and \$6 million in Spain.*
- (e) Lending-related commitments represent \$101 million to an insurance company, collateralized by \$26 million of marketable securities.*
- (f) Represents \$71 million of letters of credit extended to an insurance company in Ireland, collateralized by \$64 million of marketable securities, a \$4 million letter of credit extended to a financial institution in Italy and a \$14 million letter of credit extended to an insurance company in Spain, fully collateralized by marketable securities.*

Table of Contents**On- and off-balance sheet exposure at Dec. 31, 2011***(in millions)***On-balance sheet exposure**

	Ireland	Italy	Spain	Portugal	Total
Gross:					
Interest-bearing deposits with banks (a)	\$ 97	\$ 24	\$ 4	\$ -	\$ 125
Investment securities (primarily European Floating Rate Notes) (b)	208	155	27	-	390
Loans and leases (c)	411	3	4	-	418
Trading assets (d)	117	53	16	3	189
Total gross on-balance sheet exposure	833	235	51	3	1,122
Less:					
Collateral	102	39	7	3	151
Guarantees	-	3	1	-	4
Total collateral and guarantees	102	42	8	3	155
Total net on-balance sheet exposure	\$ 731	\$ 193	\$ 43	\$ -	\$ 967
Off-balance sheet exposure					
Gross:					
Lending-related commitments (e)	\$ 273	\$ -	\$ -	\$ -	\$ 273
Letters of credit (f)	-	2	14	-	16
Total gross off-balance sheet exposure	273	2	14	-	289
Less:					
Collateral	190	-	14	-	204
Total net off-balance sheet exposure	\$ 83	\$ 2	\$ -	\$ -	\$ 85
Total exposure:					
Total gross on- and off-balance sheet exposure	\$ 1,106	\$ 237	\$ 65	\$ 3	\$ 1,411
Less: Total collateral and guarantees	292	42	22	3	359
Total net on- and off-balance sheet exposure	\$ 814	\$ 195	\$ 43	\$ -	\$ 1,052

- (a) Interest-bearing deposits with banks represent a \$96 million placement with an Irish subsidiary of a UK holding company and \$29 million of nostro accounts related to our custody business.
- (b) Represents \$364 million, fair value, of residential mortgage-backed securities, of which 97% were investment grade, \$23 million, fair value, of investment grade asset-backed CLOs, and \$3 million, fair value, of money market fund investments located in Ireland.
- (c) Loans and leases include \$335 million of overdrafts primarily to Irish domiciled investment funds resulting from our custody business, a \$65 million commercial lease fully collateralized by U.S. Treasuries, \$15 million of financial institution loans, which were collateralized by marketable securities and \$4 million of leases to airline manufacturing companies which are under joint and several guarantee arrangements, with guarantors outside of the Eurozone. There is no impairment associated with these loans and leases.
- (d) Trading assets represent over-the-counter mark-to-market on foreign exchange and interest rate receivables, net of master netting agreements. Trading assets include \$117 million of receivables due from Irish domiciled investment funds and \$72 million due from financial institutions in Italy, Spain and Portugal. Cash collateral on the trading assets totaled \$22 million in Ireland, \$39 million in Italy, \$7 million in Spain and \$3 million in Portugal.
- (e) Lending-related commitments represent \$100 million to an asset manager fully collateralized by marketable securities, and \$173 million to an insurance company, collateralized by \$90 million of marketable securities.
- (f) Represents a \$14 million letter of credit extended to an insurance company in Spain fully collateralized by marketable securities. Exposure in Italy represents a \$2 million letter of credit extended to a financial institution.

Investment securities

In the discussion of our investment securities portfolio, we have included certain credit ratings information because the information indicates the degree of credit risk to which we are exposed, and

significant changes in ratings classifications for our investment portfolio could indicate increased credit risk for us and could be accompanied by a reduction in the fair value of our investment securities portfolio.

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

Investment securities portfolio (dollars in millions)	June 30, 2012 Fair value	3Q12		Sept. 30, 2012		Fair value as a % of amortized cost(a)	Unrealized gain/(loss)	Ratings				
		change in unrealized gain/(loss)	Amortized cost	Fair value	AAA/ AA-			A+/ A-	BBB+/ BBB-	BB+ and lower	Not rated	
Agency RMBS	\$ 39,441	\$ 321	\$ 40,298	\$ 41,462	103%	\$ 1,164	100%	A-	BBB-	BB+	and	Not
U.S. Treasury securities	15,073	36	20,024	20,356	102	332	100	-	-	-	-	-
Sovereign debt/sovereign guaranteed (b)	8,935	16	9,529	9,698	102	169	100	-	-	-	-	-
Non-agency RMBS (c)	3,037	285	2,623	3,200	74	577	1	-	2	97	-	-
Non-agency RMBS European floating rate notes (d)	1,692	119	1,813	1,724	88	(89)	13	16	10	61	-	-
Commercial MBS	3,896	96	4,419	4,231	95	(188)	75	20	2	3	-	-
State and political subdivisions	3,012	44	2,780	2,931	105	151	81	17	2	-	-	-
Foreign covered bonds (e)	5,684	55	6,111	6,210	102	99	84	14	1	-	-	1
Corporate bonds	3,928	58	3,760	3,876	103	116	100	-	-	-	-	-
CLO	1,785	20	1,786	1,863	104	77	25	65	9	1	-	-
U.S. Government agency debt	1,013	8	1,111	1,107	100	(4)	100	-	-	-	-	-
Consumer ABS	1,097	-	1,055	1,086	103	31	100	-	-	-	-	-
Other (f)	1,060	4	1,750	1,763	101	13	88	12	-	-	-	-
Total investment securities	3,339	(14)	4,087	4,127	101	40	42	54	-	-	-	4
	\$ 92,992(g)	\$ 1,048	\$ 101,146	\$ 103,634(g)	101%	\$ 2,488	89%	6%	1%	4%	-	-

(a) Amortized cost before impairments.

(b) Primarily comprised of exposure to UK, France, Germany and Netherlands.

(c) These RMBS were included in the former Grantor Trust and were marked-to-market in 2009. We believe these RMBS would receive higher credit ratings if these ratings incorporated, as additional credit enhancement, the difference between the written-down amortized cost and the current face amount of each of these securities.

(d) Includes RMBS, commercial MBS and other securities. Primarily comprised of exposure to UK and Netherlands.

(e) Primarily comprised of exposure to Germany, Canada and UK.

(f) Includes commercial paper of \$2.0 billion and \$2.2 billion, fair value, and money market funds of \$918 million and \$1.6 billion, fair value, at June 30, 2012 and Sept. 30, 2012, respectively.

(g) Includes net unrealized losses on derivatives hedging securities available-for-sale of \$417 million at June 30, 2012 and \$407 million at Sept. 30, 2012.

The fair value of our investment securities portfolio was \$103.6 billion at Sept. 30, 2012 compared with \$81.7 billion at Dec. 31, 2011. The increase in the fair value of the investment securities portfolio 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. In the third quarter of 2012, we received \$215 million of paydowns and sold \$46 million of sub-investment grade securities.

At Sept. 30, 2012, the total investment securities portfolio had an unrealized pre-tax gain of \$2.5 billion compared with \$1.4 billion at June 30, 2012 and \$793 million at Dec. 31, 2011. The improvement in the valuation of the investment securities portfolio was primarily driven by a decline in interest rates and improved credit spreads. The unrealized net of tax gain on our investment securities available-for-sale portfolio included in accumulated other comprehensive income was \$1.4

billion at Sept. 30, 2012 compared with \$784 million at June 30, 2012 and \$417 million at Dec. 31, 2011.

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At Sept. 30, 2012, June 30, 2012 and Dec. 31, 2011, 89% of the securities in our portfolio were rated AAA/AA-

We routinely test our investment securities for OTTI. (See Critical accounting estimates for additional disclosure regarding OTTI.)

At Sept. 30, 2012, we had \$943 million of accretable discount related to the restructuring of the investment securities portfolio. The discount related to these securities had a remaining average life of approximately 5.4 years. The accretion of discount related to these securities increased net interest revenue and was recorded on a level yield basis. The discount accretion totaled \$66 million in the third quarter of 2012, \$97 million in the third quarter of 2011 and \$74 million in the second quarter of 2012.

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Also, at Sept. 30, 2012, we had \$2.6 billion of net amortizable purchase premium relating to investment securities with a remaining average life of approximately 4.0 years. For these securities, the amortization of net premium decreased net interest revenue and was recorded on a level yield basis. We recorded net premium amortization of \$139 million in the third quarter of 2012, \$68 million in the third quarter of 2011 and \$118 million in the second quarter of 2012.

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

Net securities gains (losses) (in millions)	3Q12	2Q12	3Q11	Year-to-date	
				2012	2011
Sovereign debt	\$ 15	\$ 61	\$ -	\$ 83	\$ -
U.S. Treasury	-	44	3	82	44
Corporate bonds	10	7	-	19	-
FDIC-insured debt	-	-	-	10	-
Prime RMBS	(1)	(1)	-	(3)	9
Alt-A RMBS	(2)	(3)	(1)	(15)	3
Trust preferred	-	(18)	-	(18)	-
Subprime RMBS	-	(23)	(1)	(26)	(13)
European floating rate notes	(6)	(22)	(4)	(29)	(19)
Agency RMBS	-	-	-	-	8
Other	6	5	1	9	19
Net securities gains (losses)	\$ 22	\$ 50	\$ (2)	\$ 112	\$ 51

On a quarterly basis, we perform our impairment analysis using several factors, including projected loss severities and default rates. In the third quarter of 2012, this analysis resulted in \$6 million of credit losses primarily on subprime RMBS, European floating rate notes and Alt-A RMBS. If we were to increase or decrease each of our projected loss severities and default rates by 100 basis points on each of the positions in our Alt-A, subprime and prime RMBS portfolios, including the

securities previously held by the Grantor Trust we established in connection with the restructuring of our investment securities portfolio in 2009, credit-related impairment charges on these securities would have increased \$1 million (pre-tax) or decreased \$2 million (pre-tax) in the third quarter of 2012. See Note 4 of the Notes to Consolidated Financial Statements for the projected weighted-average default rates and loss severities.

At Sept. 30, 2012, the investment securities portfolio includes \$36 million of assets not accruing interest. These securities are held at market value.

The following table shows the fair value of the European floating rate notes by geographical location at Sept. 30, 2012. The unrealized loss on these securities was \$188 million at Sept. 30, 2012, an improvement of 34% from June 30, 2012 and 46% from Dec. 31, 2011.

European floating rate notes at Sept. 30, 2012 (a)

(in millions)	RMBS	Other	Total fair value
United Kingdom	\$ 1,898	\$ 259	\$ 2,157
Netherlands	1,553	47	1,600
Ireland	129	24	153
Italy	130	-	130
Australia	81	-	81
Germany	1	71	72
Spain	25	-	25
France	3	10	13
Total	\$ 3,820	\$ 411	\$ 4,231

(a) 75% of these securities are in the AAA to AA- ratings category.

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See Note 15 of the Notes to Consolidated Financial Statements for the detail of securities by level in the fair value hierarchy.

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Total exposure consolidated <i>(in billions)</i>	Sept. 30, 2012			Dec. 31, 2011		
	Loans	Unfunded commitments	Total exposure	Loans	Unfunded commitments	Total exposure
Non-margin loans:						
Financial institutions	\$ 11.0	\$ 15.2	\$ 26.2	\$ 11.1	\$ 15.5	\$ 26.6
Commercial	1.2	17.4	18.6	1.3	16.3	17.6
Subtotal institutional	12.2	32.6	44.8	12.4	31.8	44.2
Wealth management loans and mortgages	8.2	1.6	9.8	7.3	1.5	8.8
Commercial real estate	1.7	1.7	3.4	1.5	1.5	3.0
Lease financing	2.5	-	2.5	2.6	-	2.6
Other residential mortgages	1.7	-	1.7	1.9	-	1.9
Overdrafts	5.9	-	5.9	4.8	-	4.8
Other	0.7	-	0.7	0.7	-	0.7
Subtotal non-margin loans	32.9	35.9	68.8	31.2	34.8	66.0
Margin loans	13.0	0.5	13.5	12.8	0.7	13.5
Total	\$ 45.9	\$ 36.4	\$ 82.3	\$ 44.0	\$ 35.5	\$ 79.5

At Sept. 30, 2012, total exposures were \$82.3 billion, an increase of 4% from \$79.5 billion at Dec. 31, 2011, primarily reflecting higher wealth management loans and mortgages as well as higher commercial exposure and overdrafts, partially offset by lower exposure in the financial institutions portfolio.

Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios make up 54% of our total lending exposure. Additionally, a substantial portion of our overdrafts relate to financial institutions and commercial customers.

Financial institutions

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

Financial institutions portfolio exposure <i>(dollar amounts in billions)</i>	Sept. 30, 2012					Dec. 31, 2011		
	Loans	Unfunded commitments	Total exposure	% Inv grade	% due <1 yr.	Loans	Unfunded commitments	Total exposure
Banks	\$ 6.3	\$ 2.1	\$ 8.4	83%	93%	\$ 6.3	\$ 1.9	\$ 8.2
Securities industry	3.2	2.1	5.3	96	95	3.8	2.6	6.4
Asset managers	1.1	3.6	4.7	99	76	0.8	3.2	4.0
Insurance	0.2	4.4	4.6	98	27	0.1	4.6	4.7
Government	-	1.7	1.7	95	20	-	1.6	1.6
Other	0.2	1.3	1.5	99	57	0.1	1.6	1.7
Total	\$ 11.0	\$ 15.2	\$ 26.2	93%	72%	\$ 11.1	\$ 15.5	\$ 26.6

The financial institutions portfolio exposure was \$26.2 billion at Sept. 30, 2012 compared with \$26.6 billion at Dec. 31, 2011. The decrease primarily reflects lower exposure to broker-dealers, partially offset by increased exposure to asset managers.

Financial institution exposures are high-quality, with 93% meeting the investment grade equivalent criteria of our rating system at Sept. 30, 2012. These exposures are generally short-term. Of these exposures, 72% expire within one year, and 36% expire within 90 days. In addition, 40% of the financial institution exposure is secured. For example, securities industry and asset managers

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often borrow against marketable securities held in custody.

For ratings of non-U.S. counterparties, as a conservative measure, our internal credit rating classification generally caps the rating based upon the sovereign rating of the country where the counterparty resides regardless of the credit rating of the counterparty or the underlying collateral.

Our bank exposure is primarily related to our global trade finance and U.S. dollar-clearing businesses. These exposures are predominately to investment grade counterparties and are short-term in nature.

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The asset manager portfolio exposures are high- quality, with 99% meeting our investment grade equivalent ratings criteria as of Sept. 30, 2012.

These exposures are generally short-term liquidity facilities, with the vast majority to regulated mutual funds.

Commercial

The diversity of the commercial portfolio is shown in the following table:

Commercial portfolio exposure (dollar amounts in billions)	Sept. 30, 2012					Dec. 31, 2011			
	Loans	Unfunded commitments	Total exposure	% Inv grade	% due <1 yr.	Loans	Unfunded commitments	Total exposure	
Manufacturing	\$ 0.4	\$ 5.4	\$ 5.8	89%	11%	\$ 0.3	\$ 5.7	\$ 6.0	
Energy and utilities	0.2	5.4	5.6	97	11	0.3	4.8	5.1	
Services and other	0.5	5.0	5.5	93	18	0.5	4.5	5.0	
Media and telecom	0.1	1.6	1.7	90	4	0.2	1.3	1.5	
Total	\$ 1.2	\$ 17.4	\$ 18.6	93%	12%	\$ 1.3	\$ 16.3	\$ 17.6	

The commercial portfolio exposure increased 6% to \$18.6 billion at Sept. 30, 2012 from \$17.6 billion at Dec. 31, 2011, primarily reflecting an increase in exposure in the services and other and energy and utilities portfolios.

Our goal is to maintain a predominantly investment grade portfolio. The table below summarizes the percent of the financial institutions and commercial exposures that are investment grade.

Percentage of the portfolios that are investment grade	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	June 30, 2012	Sept. 30, 2012
Financial institutions	92%	93%	92%	92%	93%
Commercial	91%	91%	92%	93%	93%

Our credit strategy is to focus on investment grade names to support cross-selling opportunities and avoid single name/industry concentrations. Each customer is assigned an internal rating grade, which is mapped to an external rating agency grade equivalent based upon a number of dimensions which are continually evaluated and may change over time. The execution of our strategy has resulted in 93% of our financial institutions and commercial portfolios rated as investment grade at Sept. 30, 2012.

Wealth management loans and mortgages

Wealth management loans and mortgages are primarily composed of loans to high-net-worth individuals, which are secured by marketable securities and/or residential property. Wealth management mortgages are primarily interest-only adjustable rate mortgages with an average loan to value ratio of 63% at origination. In the wealth management portfolio, 1% of the mortgages were past due at Sept. 30, 2012.

At Sept. 30, 2012, the wealth management mortgage portfolio was comprised of the following geographic concentrations: New York 22%; California 18%; Massachusetts 17%; Florida 8%; and other 35%.

Commercial real estate

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Our commercial real estate facilities are focused on experienced owners and are structured with moderate leverage based on existing cash flows. Our commercial real estate lending activities include both construction facilities and medium-term loans. Our client base consists of experienced developers and long-term holders of real estate assets. Loans are approved on the basis of existing or projected cash flow, and supported by appraisals and knowledge of local market conditions. Development loans are structured with moderate leverage, and in most instances, involve some level of recourse to the developer. Our commercial real estate exposure totaled \$3.4 billion at Sept. 30, 2012 and \$3.0 billion at Dec. 31, 2011.

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At Sept. 30, 2012, 57% of our commercial real estate portfolio was secured. The secured portfolio is diverse by project type, with 59% secured by residential buildings, 17% secured by office buildings, 12% secured by retail properties and 12% secured by other categories. Approximately 97% of the unsecured portfolio is allocated to investment grade real estate investment trusts (REITs) under revolving credit agreements.

At Sept. 30, 2012, our commercial real estate portfolio was comprised of the following geographic concentrations: New York metro 44%; investment grade REITs 41%; and other 15%.

Lease financings

The leasing portfolio exposure totaled \$2.5 billion and includes \$190 million of airline exposures at Sept. 30, 2012 compared with \$2.6 billion of leasing exposures, including \$197 million of airline exposures, at Dec. 31, 2011. At Sept. 30, 2012, approximately 90% of the leasing exposure was investment grade.

At Sept. 30, 2012, the \$2.3 billion non-airline lease financing portfolio consisted of exposures backed by well-diversified assets, primarily large-ticket transportation equipment.

At Sept. 30, 2012, our exposure to the airline industry consisted of \$68 million to major U.S. carriers, \$106 million to foreign airlines and \$16 million to U.S. regional airlines.

Despite the significant improvement in revenues and yields that the U.S domestic airline industry achieved in the past year, high fuel prices pose a significant challenge for these carriers. Combined with their high fixed cost operating models, extremely high debt levels and sensitivity to economic cycles, the domestic airlines remain vulnerable. As such, we continue to maintain a sizable allowance for loan losses against these exposures and continue to closely monitor the portfolio.

We utilize the lease financing portfolio as part of our tax management strategy.

Other residential mortgages

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans and totaled \$1.7 billion at Sept. 30, 2012 compared with

\$1.9 billion at Dec. 31, 2011. Included in this portfolio at Sept. 30, 2012 are \$521 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are predominantly prime mortgage loans, with a small portion of Alt-A loans. As of Sept. 30, 2012, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 76% at origination, and 25% of these loans were at least 60 days delinquent. The properties securing the prime and Alt-A mortgage loans were located (in order of concentration) in California, Florida, Virginia, Maryland and the tri-state area (New York, New Jersey and Connecticut).

To determine the projected loss on the prime and Alt-A mortgage portfolio, we calculate the total estimated defaults of these mortgages and multiply that amount by an estimate of realizable value upon sale in the marketplace (severity).

At Sept. 30, 2012, we had \$12 million in subprime mortgages included in our other residential mortgage portfolio. The subprime loans were issued to support our Community Reinvestment Act requirements.

Overdrafts

Overdrafts primarily relate to custody and securities clearance clients. Overdrafts occur on a daily basis in the custody and securities clearance business and are generally repaid within two business days.

Other loans

Other loans primarily include loans to consumers that are fully collateralized with equities, mutual funds and fixed income securities, as well as bankers acceptances.

Margin loans

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Margin loans are collateralized with marketable securities, and borrowers are required to maintain a daily collateral margin in excess of 100% of the value of the loan. Margin loans also include \$5.1 billion related to a term loan program that offers fully collateralized loans to broker-dealers.

Asset quality and allowance for credit losses

Over the past several years, we have improved our risk profile through greater focus on clients who are active users of our non-credit services, de-emphasizing broad-based loan growth. Our primary

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exposure to the credit risk of a customer consists of funded loans, unfunded formal contractual commitments to lend, standby letters of credit and overdrafts associated with our custody and securities clearance businesses.

The role of credit has shifted to one that complements our other services instead of as a lead product. Credit solidifies customer relationships and, through a disciplined allocation of capital, can earn acceptable rates of return as part of an overall relationship.

The following table details changes in our allowance for credit losses.

Allowance for credit losses activity

<i>(dollar amounts in millions)</i>	Sept. 30, 2012	June 30, 2012	Dec. 31, 2011	Sept. 30, 2011
Margin loans	\$ 13,036	\$ 13,462	\$ 12,760	\$ 10,327
Non-margin loans	32,853	31,969	31,219	34,985
Total loans	\$ 45,889	\$ 45,431	\$ 43,979	\$ 45,312
Beginning balance of allowance for credit losses	\$ 467	\$ 494	\$ 498	\$ 535
Provision for credit losses	(5)	(19)	23	(22)
Net (charge-offs) recoveries:				
Financial institutions	(4)	(4)	(7)	
Other residential mortgages	(1)	(5)	(14)	(14)
Commercial	(1)	1		(1)
Foreign			(2)	
Commercial real estate			(1)	
Net (charge-offs)	\$ (6)	\$ (8)	\$ (24)	\$ (15)
Ending balance of allowance for credit losses	\$ 456	\$ 467	\$ 497	\$ 498
Allowance for loan losses	\$ 339	\$ 362	\$ 394	\$ 392
Allowance for lending-related commitments	\$ 117	\$ 105	\$ 103	\$ 106
Allowance for loan losses as a percentage of total loans	0.74%	0.80%	0.90%	0.87%
Allowance for loan losses as a percentage of non-margin loans	1.03%	1.13%	1.26%	1.12%
Total allowance for credit losses as a percentage of total loans	0.99%	1.03%	1.13%	1.10%
Total allowance for credit losses as a percentage of non-margin loans	1.39%	1.46%	1.59%	1.42%

Net charge-offs were \$6 million in the third quarter of 2012, \$15 million in the third quarter of 2011, and \$8 million in the second quarter of 2012. Net charge-offs in the third quarter of 2012 were primarily driven by the financial institutions portfolio. In the second quarter of 2012, net charge-offs were driven by the other residential mortgages and financial institutions portfolios. Net charge offs in the third quarter of 2011 primarily reflect \$14 million in the other residential mortgage portfolio.

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 was a credit of \$22 million in the third quarter of 2011 and a credit of \$19 million in the second quarter of 2012. We anticipate the provision for credit losses will not be significant in the fourth quarter of 2012.

The total allowance for credit losses was \$456 million at Sept. 30, 2012, a decrease of \$41 million compared with Dec. 31, 2011 and \$42 million compared with Sept. 30, 2011. The decrease compared with Dec. 31, 2011 primarily resulted from a decline in the expected loss related to a broker-dealer customer that previously filed for bankruptcy, improvements and loan sales in the mortgage portfolio, as well as a decline in criticized assets. The decrease compared with Sept. 30, 2011 primarily resulted from improvements and loan sales in the mortgage portfolio and a decline in criticized assets.

The ratio of the total allowance for credit losses to non-margin loans was 1.39% at Sept. 30, 2012, 1.59% at Dec. 31, 2011 and 1.42% at Sept. 30, 2011. The ratio of the allowance for loan losses to non-margin loans was 1.03% at Sept. 30, 2012, 1.26% at Dec. 31, 2011 and 1.12% at Sept. 30, 2011. The decrease in these ratios at Sept. 30, 2012 compared with Dec. 31, 2011 resulted from a decline in the expected loss related to a broker-dealer customer that previously filed for bankruptcy, as well as improvements in the mortgage portfolio.

We had \$13.0 billion of secured margin loans on our balance sheet at Sept. 30, 2012 compared with \$12.8 billion at Dec. 31, 2011. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to them. As a result, we believe that the ratio of total allowance for credit losses to non-margin loans is a more appropriate metric to measure the adequacy of the reserve.

We utilize a quantitative methodology and qualitative framework for determining the allowance for credit losses. The three elements of the quantitative methodology are:

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

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

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

The third element, the allowance for residential mortgage loans, is determined by segregating six mortgage pools into delinquency periods ranging from current through foreclosure. Each of these delinquency periods is assigned a probability of default. A specific loss given default based on a combination of external loss data from third-party databases and internal loss history is assigned for each mortgage pool. For each pool, the inherent loss is calculated using the above factors. The resulting probable loss factor is applied against the loan balance to determine the allowance held for each pool.

Within this framework, management applies judgment when assessing internal risk factors and environmental factors to compute an additional allowance for each component of the loan portfolio. The qualitative framework is used to determine an additional allowance for each portfolio based on the factors below:

Internal risk factors:

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

Environmental risk factors:

- U.S. noninvestment grade default rate;
- Unemployment rate; and
- Change in real GDP (quarter-over-quarter).

To the extent actual results differ from forecasts or management's judgment, the allowance for credit losses may be greater or less than future charge-offs.

Based on an evaluation of these three elements and our qualitative framework, we have allocated our allowance for credit losses as follows:

Allocation of allowance

	Sept. 30, 2012	June 30, 2012	Dec. 31, 2011	Sept. 30, 2011
to our portfolio				
Other residential mortgages	31%	33%	31%	33%
Commercial	22	22	18	20
Foreign	12	12	12	11
Lease financing	12	12	13	18
Financial institutions	8	8	13	6
Commercial real estate	8	7	7	6
Wealth management (a)	7	6	6	6
Total	100%	100%	100%	100%

(a) Includes the allowance for wealth management mortgages.

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

The credit rating assigned to each credit is a significant variable in determining the allowance. If each credit were rated one grade better, the allowance would have decreased by \$59 million, while if each credit were rated one grade worse, the allowance would have increased by \$92 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by \$43 million, while if the loss given default were one rating better, the allowance would have decreased by \$35 million. For impaired credits, if the net carrying value of the loans was 10% higher or lower, the allowance would have decreased or increased by \$2 million, respectively.

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The following table shows the distribution of non-performing assets.

Nonperforming assets

<i>(dollar amounts in millions)</i>	Sept. 30, 2012	June 30, 2012	Dec. 31, 2011
Nonperforming loans:			
Other residential mortgages	\$ 166	\$ 177	\$ 203
Wealth management	33	35	32
Commercial	29	31	21
Commercial real estate	29	30	40
Foreign	9	9	10
Financial institutions	3	3	23
Total nonperforming loans	269	285	329
Other assets owned	5	9	12
Total nonperforming assets (a)	\$ 274	\$ 294	\$ 341
Nonperforming assets ratio	0.60%	0.65%	0.78%
Nonperforming assets ratio, excluding margin loans	0.83	0.92	1.09
Allowance for loan losses/nonperforming loans	126.0	127.0	119.8
Allowance for loan losses/nonperforming assets	123.7	123.1	115.5
Total allowance for credit losses/nonperforming loans	169.5	163.9	151.1
Total allowance for credit losses/nonperforming assets	166.4	158.8	145.7

(a) Loans of consolidated investment management funds are not part of BNY Mellon's loan portfolio. Included in these loans are nonperforming loans of \$153 million at Sept. 30, 2012, \$155 million at June 30, 2012 and \$101 million at Dec. 31, 2011. These loans are recorded at fair value and therefore do not impact the provision for credit losses and allowance for loan losses, and accordingly are excluded from the nonperforming assets table above.

Nonperforming assets**quarterly activity**

<i>(in millions)</i>	Sept. 30, 2012	June 30, 2012	Dec. 31, 2011
Balance at beginning of period	\$ 294	\$ 331	\$ 344
Additions	10	15	69
Return to accrual status	(5)	(6)	(8)
Net charge-offs	(4)	(11)	(24)
Paydowns/sales	(17)	(30)	(37)
Net change in other real estate owned	(4)	(5)	(3)
Balance at end of period	\$ 274	\$ 294	\$ 341

Nonperforming assets were \$274 million at Sept. 30, 2012, a decrease of \$20 million compared with June 30, 2012. The decrease primarily resulted from paydowns/sales in the residential mortgage, wealth management and commercial portfolios, as well as net charge-offs and the return to accrual status of residential mortgage loans. The decrease was partially offset by additions of residential mortgage loans.

See Note 5 of the Notes to Consolidated Financial Statements for additional information on our past due loans. See Nonperforming assets in Note 1 of the Notes to Consolidated Financial Statements in the 2011 Annual Report for our policy for placing loans on nonaccrual status.

Deposits

Total deposits were \$222.9 billion at Sept. 30, 2012 compared with \$219.1 billion at Dec. 31, 2011. The increase reflects higher foreign and domestic interest-bearing deposits primarily offset by lower noninterest-bearing deposits.

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Interest-bearing deposits were \$144.1 billion at Sept. 30, 2012 compared with \$123.8 billion at Dec. 31, 2011. Noninterest-bearing deposits were \$78.8 billion at Sept. 30, 2012 compared with \$95.3 billion at Dec. 31, 2011.

Short-term borrowings

We fund ourselves primarily through deposits and, to a lesser extent, other borrowings, which are comprised of federal funds purchased and securities sold under repurchase agreements, payables to customers and broker-dealers, commercial paper, other borrowed funds and long-term debt. Certain other borrowings, for example, securities sold under repurchase agreements, require the delivery of securities as collateral.

See Liquidity and dividends below for a discussion of long-term debt and liquidity metrics that we monitor and an additional discussion on the Parent's reliance on short-term borrowings.

Information related to federal funds purchased and securities sold under repurchase agreements is presented below.

Federal funds purchased

and securities

sold under repurchase

agreements

(dollar amounts in millions)

	Sept. 30, 2012	Quarter ended June 30, 2012	Sept. 30, 2011
Maximum daily balance during the quarter	\$ 15,712	\$ 21,818	\$ 21,690
Average daily balance	\$ 10,092	\$ 11,254	\$ 10,164
Weighted-average rate during the quarter	(0.06)%	0.01%	0.03%
Ending balance	\$ 12,450	\$ 9,162	\$ 6,768
Weighted-average rate at period end	(0.02)%	(0.03)%	0.01%

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Federal funds purchased and securities sold under repurchase agreements were \$12.5 billion at Sept. 30, 2012, \$9.2 billion at June 30, 2012 and \$6.8 billion at Sept. 30, 2011. The increase compared with both prior periods primarily reflects attractive overnight rate opportunities. The maximum daily balance in the third quarter of 2012 was \$15.7 billion and also resulted from attractive overnight rate opportunities. The weighted-average rates in the third quarter of 2012 and the second quarter of 2012 reflect revenue earned on securities sold under repurchase agreements related to certain securities for which we were able to charge for lending them.

Information related to payables to customers and broker-dealers is presented below.

Payables to customers and broker-dealers

	Sept. 30, 2012	Quarter ended June 30, 2012	Sept. 30, 2011
<i>(dollar amounts in millions)</i>			
Maximum daily balance during the quarter	\$ 14,639	\$ 15,812	\$ 14,190
Average daily balance	\$ 13,205	\$ 13,255	\$ 12,303
Weighted-average rate during the quarter (a)	0.10%	0.10%	0.10%
Ending balance	\$ 13,675	\$ 13,305	\$ 13,097
Weighted-average rate at period end	0.09%	0.10%	0.09%

(a) The weighted-average rate is calculated based on, and is applied to, the average interest-bearing payables to customers and broker-dealers, which were \$8,141 million in the third quarter of 2012, \$7,895 million in the second quarter of 2012 and \$7,692 million in the third quarter of 2011.

Payables to customers and broker-dealers represent funds awaiting reinvestment and short sale proceeds payable on demand. Payables to customers and broker-dealers were \$13.7 billion at Sept. 30, 2012, \$13.3 billion at June 30, 2012 and \$13.1 billion at Sept. 30, 2011. Payables to customers and broker-dealers are driven by customer trading activity and market volatility.

Information related to commercial paper is presented below.

Commercial paper

	Sept. 30, 2012	Quarter ended June 30, 2012	Sept. 30, 2011
<i>(dollar amounts in millions)</i>			
Maximum daily balance during the quarter	\$ 2,331	\$ 2,547	\$ 575
Average daily balance	\$ 968	\$ 1,436	\$ 300
Weighted-average rate during the quarter	0.12%	0.29%	0.08%
Ending balance	\$ 1,278	\$ 1,564	\$ 44
Weighted-average rate at period end	0.11%	0.14%	0.03%

Commercial paper outstanding was \$1.3 billion at Sept. 30, 2012, \$1.6 billion at June 30, 2012 and \$44 million at Sept. 30, 2011. Average commercial paper outstanding was \$1.0 billion in the third quarter of 2012, \$1.4 billion in the second quarter of 2012 and \$300 million in the third quarter of 2011. The increase compared with Sept. 30, 2011 was primarily driven by attractive short-term borrowing opportunities and Parent funding requirements. Our commercial paper matures within 397 days from date of issue and is not redeemable prior to maturity or subject to voluntary prepayment.

Information related to other borrowed funds is presented below.

Other borrowed funds

	Sept. 30, 2012	Quarter ended June 30, 2012	Sept. 30, 2011
<i>(dollar amounts in millions)</i>			
Maximum daily balance during the quarter	\$ 1,345	\$ 2,795	\$ 4,561
Average daily balance	\$ 887	\$ 1,114	\$ 1,956
Weighted-average rate during the quarter	1.31%	1.88%	0.87%
Ending balance	\$ 1,139	\$ 1,374	\$ 4,561
Weighted-average rate at period end	1.66%	2.75%	1.81%

Other borrowed funds primarily include borrowings under lines of credit by our Pershing subsidiaries; and overdrafts of sub-custodian account balances in our Investment Services business. Overdrafts in these accounts typically relate to timing differences for settlements. Other borrowed

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funds were \$1.1 billion at Sept. 30, 2012, \$1.4 billion at June 30, 2012 and \$4.6 billion at Sept. 30, 2011. The decrease compared with the prior year period reflects a change in the source of funding our Pershing subsidiaries.

Liquidity and dividends

BNY Mellon defines liquidity as the ability of the Parent and its subsidiaries to access funding or convert assets to cash quickly and efficiently, especially during periods of market stress. Liquidity risk is the risk that BNY Mellon cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flows, without adversely affecting daily operations or financial conditions. Liquidity risk can arise from cash flow mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets or deposit run-off.

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Our overall approach to liquidity management is to ensure that sources of liquidity are sufficient in amount and diversity such that changes in funding requirements at the Parent and at the various bank subsidiaries can be accommodated routinely without material adverse impact on earnings, daily operations or our financial condition.

BNY Mellon seeks to maintain an adequate liquidity cushion in both normal and stressed environments and seeks to diversify funding sources by line of business, customer and market segment. Additionally, we seek to maintain liquidity ratios within approved limits and liquidity risk tolerance, maintain a liquid asset buffer that can be liquidated, financed and/or pledged as necessary, and control the levels and sources of wholesale funds.

Potential uses of liquidity include withdrawals of customer deposits and client drawdowns on unfunded credit or liquidity facilities. We actively monitor unfunded lending-related commitments, thereby reducing unanticipated funding requirements.

When monitoring liquidity, we evaluate multiple metrics to ensure ample liquidity for expected and unexpected events. Metrics include cashflow mismatches, asset maturities, access to debt and money markets, debt spreads, peer ratios, unencumbered collateral, funding sources and balance sheet liquidity ratios. We monitor the Basel III liquidity coverage ratio as applied to us, based on our current interpretation of Basel III. Ratios we currently monitor as part of our standard

analysis include total loans as a percentage of total deposits, deposits as a percentage of total interest-earning assets, foreign deposits as a percentage of total interest-earnings assets, purchased funds as a percentage of total interest-earning assets, liquid assets as a percentage of total interest-earning assets and liquid assets as a percentage of purchased funds. All of these ratios exceeded our minimum guidelines at Sept. 30, 2012.

We also perform liquidity stress tests to ensure the Company maintains sufficient liquidity resources under multiple stress scenarios. Stress tests are based on scenarios that measure liquidity risks under unlikely but plausible events. The Company performs these tests under various time horizons ranging from one day to one year in a base case, as well as supplemental tests to determine whether the Company's liquidity is sufficient for severe market events and firm-specific events. Under our scenario testing program, the results of the tests indicate that the Company has sufficient liquidity.

Available funds are defined as liquid funds (which include interest-bearing deposits with banks and federal funds sold and securities purchased under resale agreements), cash and due from banks, and interest-bearing deposits with the Federal Reserve and other central banks. The table below presents our total available funds, including liquid funds, at period end and on an average basis. The decline in available funds at Sept. 30, 2012 compared with Dec. 31, 2011 resulted from a decrease in interest-bearing deposits with the Federal Reserve and other central banks as we increased the level of our securities portfolio.

Available and liquid funds <i>(in millions)</i>	Sept. 30, 2012	Dec. 31, 2011	3Q12	2Q12	Average 3Q11	YTD12	YTD11
Available funds:							
Liquid funds:							
Interest-bearing deposits with banks	\$ 40,578	\$ 36,321	\$ 41,201	\$ 38,474	\$ 60,412	\$ 38,267	\$ 59,124
Federal funds sold and securities purchased under resale agreements	5,753	4,510	5,315	5,493	4,865	5,327	4,653
Total liquid funds	46,331	40,831	46,516	43,967	65,277	43,594	63,777
Cash and due from banks	4,991	4,175	4,276	4,412	5,204	4,320	4,548
Interest-bearing deposits with the Federal Reserve and other central banks	73,118	90,243	61,849	57,904	61,115	61,096	38,666
Total available funds	\$ 124,440	\$ 135,249	\$ 112,641	\$ 106,283	\$ 131,596	\$ 109,010	\$ 106,991
Total available funds as a percentage of total assets	37%	42%	35%	35%	42%	35%	38%

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On an average basis for the first nine months of 2012 and the first nine months of 2011, non-core sources of funds, such as money market rate accounts, federal funds purchased, trading liabilities, other borrowings and commercial paper, were \$21.1 billion and \$17.5 billion, respectively. The increase primarily reflects higher levels of money market rate accounts, federal funds purchased and commercial paper, partially offset by lower levels of trading liabilities and other borrowings. Average foreign deposits, primarily from our European-based Investment Services business, were \$89.5 billion for the first nine months of 2012 compared with \$82.2 billion for the first nine months of 2011. The increase primarily reflects growth in client deposits. Domestic savings and time deposits averaged \$34.4 billion for the first nine months of 2012 compared with \$35.9 billion for the first nine months of 2011. The decrease reflects a reduction in both domestic savings and time deposits.

Average payables to customers and broker-dealers were \$7.9 billion for the first nine months of 2012 and \$7.1 billion for the first nine months of 2011. Long-term debt averaged \$20.1 billion for the first nine months of 2012 compared with \$17.6 billion for the first nine months of 2011. The increase in average long-term debt was driven by planned capital actions and anticipated maturities. Average noninterest-bearing deposits increased to \$66.6 billion for the first nine months of 2012 from \$51.8 billion for the first nine months of 2011, reflecting growth in client deposits. A significant reduction in our Investment Services businesses would reduce our access to deposits.

The Parent has four major sources of liquidity:

- cash on hand;
- dividends from its subsidiaries;
- access to the commercial paper market; and
- access to the long-term debt and equity markets.

Our bank subsidiaries can declare dividends to the Parent of approximately \$4.1 billion, subsequent to Sept. 30, 2012, without the need for a regulatory waiver. In addition, at Sept. 30, 2012, non-bank subsidiaries of the Parent had liquid assets of approximately \$1.4 billion.

In the third quarter of 2012, BNY Mellon's quarterly cash dividend was \$0.13 per common share. The Federal Reserve's current guidance provides that, for large bank holding companies like us, common dividend payout ratios exceeding 30% of after-tax net income will receive particularly close scrutiny.

Restrictions on our ability to obtain funds from our subsidiaries are discussed in more detail in Note 20 of the Notes to Consolidated Financial Statements contained in the 2011 Annual Report.

For the quarter ended Sept. 30, 2012, the Parent's quarterly average commercial paper borrowings were \$968 million compared with \$300 million for the quarter ended Sept. 30, 2011. In addition to issuing commercial paper for funding purposes, the Parent issues commercial paper, on an overnight basis, to certain custody clients with excess demand deposit balances. Overnight commercial paper issued by the Parent was \$1.3 billion at Sept. 30, 2012 and \$10 million at Dec. 31, 2011. The Parent had cash of \$5.2 billion at Sept. 30, 2012 compared with \$4.6 billion at Dec. 31, 2011. Net of commercial paper outstanding, the Parent's cash position at Sept. 30, 2012 decreased \$581 million compared with Dec. 31, 2011, primarily reflecting increased loans to subsidiaries, which replaced external funding sources, and share repurchases.

The Parent's major uses of funds are payment of dividends, repurchases of common stock, principal and interest payments on its borrowings, acquisitions and additional investments in its subsidiaries.

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.

While the Parent's liquidity policy is to have sufficient cash on hand to meet its obligations over the next 12 months without the need to receive dividends from its bank subsidiaries or issue debt, our practice has been to maintain sufficient cash for the next 24 months. As of Sept. 30, 2012, the Parent was in compliance with its liquidity policy and practice.

In addition to our other funding sources, we also have the ability to access the capital markets. In June 2010, we filed shelf registration statements on Form S-3 with the Securities and Exchange Commission (SEC) covering the issuance of certain securities, including an unlimited amount of debt, common stock, preferred stock and trust preferred securities, as well as common stock issued under the Direct Stock Purchase and Dividend Reinvestment Plans. These registration statements will expire in June 2013, at which time we plan to file new shelf registration statements.

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Our ability to access capital markets on favorable terms, or at all, is partially dependent on our credit ratings, which, as of Sept. 30, 2012, were as follows:

Debt ratings at Sept. 30, 2012

	Moody's	Standard & Poor's	Fitch	DBRS
Parent:				
Long-term senior debt	Aa3	A+	AA-	AA (low)
Subordinated debt	A1	A	A+	A (high)
Trust preferred securities	A2	BBB	BBB+	A (high)
Short-term	P1	A-1	F1+	R-1(middle)
Outlook Parent:	Negative	Negative	Stable	Stable
The Bank of New York Mellon:				
Long-term senior debt	Aa1	AA-	AA-	AA
Long-term deposits	Aa1	AA-	AA	AA
Short-term deposits	P1	A-1+	F1+	R-1 (high)
BNY Mellon, N.A.:				
Long-term senior debt	Aa1	AA-	AA-(a)	AA
Long-term deposits	Aa1	AA-	AA	AA
Short-term deposits	P1	A-1+	F1+	R-1 (high)
Outlook Banks:	Stable	Negative	Stable	Stable

(a) Represents senior debt issuer default rating.

As a result of Moody's and Standard & Poor's (S&P) government support assumptions on U.S. financial institutions, the Parent's Moody's and S&P ratings benefit from one notch of lift. Similarly, The Bank of New York Mellon's and BNY Mellon, N.A.'s ratings benefit from two notches of lift from Moody's and one notch of lift from S&P.

Subsequent to Sept. 30, 2012, S&P, Fitch and DBRS reaffirmed all of our debt ratings.

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.

The Parent has \$1.8 billion of long-term debt that will mature in the fourth quarter of 2012 and has the option to call \$28 million of subordinated debt in the fourth quarter of 2012, which it may call and refinance if market conditions are favorable.

On Oct. 25, 2012, we issued \$600 million of fixed-rate senior medium-term notes maturing in 2015

with an annual interest rate of 0.70%, \$500 million of fixed-rate senior medium-term notes maturing in 2018 with an annual interest rate of 1.30%, and \$400 million of floating rate senior notes maturing in 2015.

On Sept. 19, 2012, BNY Mellon issued 22 million depository shares (Series C Depository Shares), each representing a 1/4,000th interest in a share of BNY Mellon's Series C Noncumulative Perpetual Preferred Stock (the Series C preferred stock). The proceeds of the offering totaled \$536 million, net of issuance costs. On Oct. 10, 2012, BNY Mellon issued an additional 1.3 million of Series C Depository Shares for \$32 million, net of issuance costs, in connection with the underwriters' over-allotment option. BNY Mellon will pay dividends on the Series C preferred stock, if declared by our board of directors, at an annual rate of 5.2%.

At Sept. 30, 2012, we had approximately \$1.2 billion of trust preferred securities outstanding that qualify as Tier 1 capital, including \$850 million that are currently callable. On Oct. 26, 2012, BNY Mellon sent a redemption notice in respect of all outstanding 6.875% Trust Preferred

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Securities, Series E, issued by BNY Capital IV (liquidation amount \$25 per security and \$200 million in the aggregate) and all outstanding 5.95% Trust Preferred Securities, Series F, issued by BNY Capital V (liquidation amount \$25 per security and \$350 million in the aggregate), which is expected to result in their redemption on Nov. 26, 2012. Any decision to take action with respect to the remaining trust-preferred securities will be based on several considerations including interest rates, the availability of cash and capital, as well as the implementation of the Dodd-Frank Act.

The double leverage ratio is the ratio of investment in subsidiaries divided by our consolidated equity, which includes our noncumulative perpetual preferred stock, plus trust preferred securities. Our double leverage ratio was 107.4% at Sept. 30, 2012 and 107.3% at Dec. 31, 2011. The double leverage ratio is monitored by regulators and rating agencies and is an important constraint on our ability to invest in our subsidiaries and expand our businesses.

Pershing LLC, an indirect subsidiary of BNY Mellon, has committed and uncommitted lines of credit in place for liquidity purposes, which are guaranteed by the Parent. The committed line of credit for \$750 million extended by 17 financial institutions matures in March 2013. Average

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borrowings under this line of credit totaled \$1 million, in aggregate, during the third quarter of 2012. Pershing LLC has nine separate uncommitted lines of credit amounting to \$1.6 billion in aggregate. Average daily borrowing under these lines was \$1 million, in aggregate, during the third quarter of 2012. See "Liquidity and dividends" in the 2011 Annual Report for a description of the covenants required to be maintained by the Parent for the committed line of credit maintained by Pershing LLC. We are currently in compliance with these covenants.

Pershing Limited, an indirect U.K.-based subsidiary of BNY Mellon, has uncommitted lines of credit in place for liquidity purposes, which are guaranteed by the Parent. Pershing Limited has two separate uncommitted lines of credit amounting to \$250 million in aggregate. Average daily borrowing under these lines was \$57 million, in aggregate, during the third quarter of 2012.

Statement of cash flows

Cash provided by operating activities was \$1.3 billion for the nine months ended Sept. 30, 2012 compared with cash used by operating activities of \$683 million for the nine months ended Sept. 30, 2011. In the first nine months of 2012, earnings were a significant source of funds. In the first nine months of 2011, earnings were more than offset by the change in trading activities.

Through Sept. 30, 2012, cash used for investing activities was \$10.4 billion compared with \$69.1 billion in the first nine months of 2011. In the first nine months of 2012, purchases of securities, and changes in interest-bearing deposits with banks were a significant use of funds, partially offset by decreases in deposits with the Federal Reserve and other central banks and sales, paydowns, and maturities of securities. In the first nine months of 2011, increases in interest-bearing deposits with the Federal Reserve and other central banks and purchases of securities were a significant use of funds, partially offset by sales, paydowns and maturities of securities.

In the first nine months of 2012, cash provided by financing activities was \$9.9 billion compared with \$73.1 billion in the first nine months of 2011. In the first nine months of 2012, increases in federal funds purchased and securities sold under repurchase agreements, deposits, commercial paper and the issuance of long-term debt and preferred stock were significant sources of funds, partially offset by repayments of long-term debt, a decrease in other borrowed funds and treasury stock repurchases. In the first nine months of 2011, an increase in deposits was a significant source of funds.

Capital**Capital data**

(dollar amounts in millions except per share)

	Sept. 30, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011
<i>amounts; common shares in thousands</i>				
Average common equity to average assets	10.8%	11.2%	11.2%	10.7%
At period end:				
BNY Mellon shareholders' equity to total assets ratio	10.7%	10.5%	11.3%	10.3%
BNY Mellon common shareholders' equity to total assets ratio	10.3%	10.3%	11.3%	10.3%
Total BNY Mellon shareholders' equity GAAP	\$ 36,218	\$ 34,533	\$ 34,000	\$ 33,417
Total BNY Mellon common shareholders' equity GAAP	\$ 35,182	\$ 34,033	\$ 34,000	\$ 33,417
Tangible BNY Mellon common shareholders' equity Non-GAAP (a)	\$ 14,712	\$ 13,544	\$ 13,326	\$ 12,787
Book value per common share GAAP	\$ 30.11	\$ 28.81	\$ 28.51	\$ 27.62
Tangible book value per common share Non-GAAP (a)	\$ 12.59	\$ 11.47	\$ 11.17	\$ 10.57
Closing common stock price per share	\$ 22.62	\$ 21.95	\$ 24.13	\$ 19.91
Market capitalization	\$ 26,434	\$ 25,929	\$ 28,780	\$ 24,085
Common shares outstanding	1,168,607	1,181,298	1,192,716	1,209,675
Cash dividends per common share	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13
Common dividend yield (annualized)	2.3%	2.4%	2.2%	2.6%
Common dividend payout ratio	21%	33%	25%	31%

(a) See Supplemental information "Explanation of Non-GAAP financial measures" beginning on page 48 for the reconciliation of GAAP to Non-GAAP.

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Total The Bank of New York Mellon Corporation shareholders' equity increased compared with Dec. 31, 2011, primarily reflecting earnings retention, the issuance of \$1.0 billion of noncumulative perpetual preferred stock, net of issuance costs, and the increased value of our investment securities portfolio, partially offset by share repurchases.

During the third quarter of 2012, we repurchased 13.4 million shares in the open market at an average price of \$21.47 per share for a total of \$288 million. Our 2012 capital plan includes the repurchase of up to \$1.16 billion of outstanding common stock.

The unrealized net of tax gain on our available-for-sale securities portfolio recorded in accumulated other comprehensive income was \$1.4 billion at Sept. 30, 2012 compared with \$417 million at Dec. 31, 2011. The increase in the valuation of the investment securities portfolio was driven by a decline in interest rates and improved credit spreads.

Capital adequacy

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

As of Sept. 30, 2012 and Dec. 31, 2011, BNY Mellon and our bank subsidiaries were considered well capitalized on the basis of the Basel I Total and Tier 1 capital to risk-weighted assets ratios and the leverage ratio (Basel I Tier 1 capital to quarterly average assets as defined for regulatory purposes).

Our consolidated and largest bank subsidiary, The Bank of New York Mellon, capital ratios are shown below.

Consolidated and largest bank subsidiary capital ratios

	Well capitalized	Adequately capitalized	Sept. 30, 2012	June 30, 2012	Dec. 31, 2011	Sept. 30, 2011
Consolidated capital ratios:						
Estimated Basel III Tier 1 common equity ratio Non-GAAP (a)(b)	N/A	N/A	9.3%	8.7%	N/A	N/A
Tangible BNY Mellon common shareholders' equity to tangible assets of operations ratio Non-GAAP (b)	N/A	N/A	6.3%	6.1%	6.4%	5.9%
Determined under Basel I-based guidelines (c):						
Tier 1 common equity to risk-weighted assets ratio Non-GAAP (b)	N/A	N/A	13.3%	13.2%	13.4%	12.5%
Tier 1 capital	6%	N/A	15.3	14.7	15.0	14.0
Total capital	10	N/A	16.9	16.4	17.0	16.1
Leverage guideline	5	N/A	5.6	5.5	5.2	5.1
The Bank of New York Mellon capital ratios (c):						
Tier 1 capital	6%	4%	14.1%	13.7%	14.3%	13.5%
Total capital	10	8	14.8	14.5	17.7	17.0
Leverage	5	3	5.5	5.7	5.3	5.1

(a) The estimated Basel III Tier 1 common equity ratios at Sept. 30, 2012 and June 30, 2012 are based on the 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 ratios of 7.1% at Dec. 31, 2011 and 6.5% at Sept. 30, 2011 were based on prior Basel III guidance and the proposed market risk rule.

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

(c)

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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 Federal Reserve's risk-based capital guidelines that are based on the 1988 Basel Accord, which is often referred to as Basel I.

N/A Not applicable at the consolidated company level. Well capitalized and adequately capitalized have not been defined for Basel III.

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Our estimated Basel III Tier 1 common equity ratio was 9.3% at Sept. 30, 2012 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.

At Sept. 30, 2012, the amounts of capital by which BNY Mellon and our largest bank subsidiary, The Bank of New York Mellon, exceed the well-capitalized guidelines are as follows.

Capital above guidelines at Sept. 30, 2012

<i>(in millions)</i>	Consolidated	The Bank of New York Mellon
Tier 1 capital	\$ 10,204	\$ 7,606
Total capital	7,539	4,545
Leverage	1,888	1,262

Failure to satisfy regulatory standards, including well-capitalized status or capital adequacy guidelines more generally, could result in limitations on our activities and adversely affect our financial condition. See the discussion of these matters in our 2011 Annual Report in Item 1 (Business Supervision and Regulation Regulated Entities of BNY Mellon) and Item 1A (Risk Factors Supervisory Standards Failure to satisfy regulatory standards, including well-capitalized status or capital adequacy guidelines more generally, could result in limitations on our activities and adversely affect our financial condition.)

Our Basel I Tier 1 capital ratio was 15.3% at Sept. 30, 2012 compared with 15.0% at Dec. 31, 2011. The increase primarily reflects earnings retention and the issuance of the noncumulative perpetual preferred stock, partially offset by share repurchases and the repayment of trust preferred securities. Our Basel I Tier 1 leverage ratio was 5.6% at Sept. 30, 2012 compared with 5.2% at Dec. 31, 2011. The leverage ratio of The Bank of New York Mellon was 5.5% at Sept. 30, 2012 compared with 5.3% at Dec. 31, 2011. The improvement in the leverage ratio of BNY Mellon reflects the factors mentioned above. The improvement in the leverage ratio of The Bank of New York Mellon resulted from earnings retention.

The Basel I Tier 1 capital ratio varies depending on the size of the balance sheet at quarter end and the level and types of investments. The balance sheet size fluctuates from quarter to quarter based on levels of client and market activity. In general,

when servicing clients are more actively trading securities, deposit balances and the balance sheet as a whole are higher. In addition, when markets experience significant volatility, our balance sheet size may increase considerably as client deposit levels increase.

In the third quarter of 2012, we generated \$780 million of gross Basel I Tier 1 common equity, which was primarily driven by earnings retention.

Basel I Tier 1 common equity generation

<i>(in millions)</i>	Sept. 30, 2012	Quarter ended June 30, 2012
Net income applicable to common shareholders of The Bank of New York Mellon Corporation GAAP	\$ 720	\$ 466
Add: Amortization of intangible assets, net of tax	60	61
Gross Basel I Tier 1 common equity generated	780	527
Less capital deployed:		
Dividends	155	156
Common stock repurchases	288	286
Total capital deployed	443	442
Add: Other	181	(53)
Net Basel I Tier 1 common equity generated	\$ 518	\$ 32

The following table shows the impact of a \$1 billion increase or decrease in risk-weighted assets or a \$100 million increase or decrease in common equity on the consolidated capital ratios at Sept. 30, 2012.

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Potential impact to capital ratios as of Sept. 30, 2012

(basis points)	\$100 million in common equity	Increase or decrease of \$1 billion in risk- weighted assets/ quarterly average assets (a)
Basel I:		
Tier 1 capital	9 bp	14 bp
Total capital	9	15
Leverage	3	2
Basel III:		
Estimated Tier 1 common equity ratio	7 bp	6 bp

(a) Quarterly average assets determined under Basel I regulatory guidelines.

Our tangible BNY Mellon common shareholders' equity to tangible assets of operations ratio was 6.3% at Sept. 30, 2012 compared with 6.4% at Dec. 31, 2011. The decrease compared with Dec. 31, 2011 was primarily due to a larger balance sheet and lower cash on deposit with the Federal Reserve and other central banks as we increased our investment securities portfolio.

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On Sept. 19, 2012, BNY Mellon issued 22 million Series C Depositary Shares, each representing a 1/4,000th interest in a share of BNY Mellon's Series C preferred stock. The proceeds of the offering totaled \$536 million, net of issuance costs. On Oct. 10, 2012, BNY Mellon issued an additional 1.3 million of Series C Depositary Shares for \$32 million, net of issuance costs, in connection with the underwriters' overallotment option. BNY Mellon will pay dividends on the Series C preferred stock, if declared by our board of directors, at an annual rate of 5.2%.

At Sept. 30, 2012, we had approximately \$1.2 billion of trust preferred securities outstanding that qualify as Tier 1 capital, including \$850 million that are currently callable. On Oct. 26,

2012, BNY Mellon sent a redemption notice in respect of all outstanding 6.875% Trust Preferred Securities, Series E, issued by BNY Capital IV (liquidation amount \$25 per security and \$200 million in the aggregate) and all outstanding 5.95% Trust Preferred Securities, Series F, issued by BNY Capital V (liquidation amount \$25 per security and \$350 million in the aggregate), which is expected to result in their redemption on Nov. 26, 2012. Any decision to take action with respect to the remaining trust-preferred securities will be based on several considerations including interest rates, the availability of cash and capital, as well as the implementation of the Dodd-Frank Act.

The following table presents the components of our Basel I Tier 1 and Total risk-based capital at Sept. 30, 2012, June 30, 2012, Dec. 31, 2011 and Sept. 30, 2011, respectively.

Components of Basel I Tier 1 and total risk-based capital (a)

<i>(in millions)</i>	Sept. 30, 2012	June 30, 2012	Dec. 31, 2011	Sept. 30, 2011
Tier 1 capital:				
Common shareholders' equity	\$ 35,182	\$ 34,033	\$ 33,417	\$ 33,695
Preferred stock	1,036	500	-	-
Trust preferred securities	1,173	1,164	1,659	1,660
Adjustments for:				
Goodwill and other intangibles (b)	(20,469)	(20,489)	(20,630)	(20,906)
Pensions/cash flow hedges	1,344	1,372	1,426	969
Merchant banking investments	(21)	(33)	(33)	(32)
Securities valuation allowance	(1,448)	(825)	(450)	(466)
Total Tier 1 capital	16,797	15,722	15,389	14,920
Tier 2 capital:				
Qualifying unrealized gains on equity securities	1	2	2	2
Qualifying subordinated debt	1,272	1,317	1,545	1,723
Qualifying allowance for credit losses	456	467	497	498
Total Tier 2 capital	1,729	1,786	2,044	2,223
Total risk-based capital	\$ 18,526	\$ 17,508	\$ 17,433	\$ 17,143
Total risk-weighted assets	\$ 109,867	\$ 106,764	\$ 102,255	\$ 106,256
Average assets for leverage capital purposes	\$ 298,176	\$ 284,776	\$ 296,484	\$ 290,647

(a) On a regulatory basis as determined under Basel I guidelines.

(b) Reduced by deferred tax liabilities associated with non-tax deductible identifiable intangible assets of \$1,339 million at Sept. 30, 2012, \$1,400 million at June 30, 2012, \$1,459 million at Dec. 31, 2011 and \$1,604 million at Sept. 30, 2011, and deferred tax liabilities associated with tax deductible goodwill of \$1,057 million at Sept. 30, 2012, \$982 million at June 30, 2012, \$967 million at Dec. 31, 2011 and \$915 million at Sept. 30, 2011.

Trading activities and risk management

Our trading activities are focused on acting as a market maker for our customers and facilitating customer trades. Positions managed for our own account are immaterial to our foreign exchange and other trading revenue and to our overall results of

operations. The risk from market-making activities for customers is managed by our traders and limited in total exposure through a system of position limits, a value-at-risk (VaR) methodology based on a Monte Carlo simulation, stop loss advisory triggers and other market sensitivity measures. See Note 17 of the Notes to Consolidated Financial Statements for additional information on the VaR methodology.

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The following tables indicate the calculated VaR amounts for the trading portfolio for the designated periods:

VaR (a) (in millions)	3rd Quarter 2012			Sept. 30, 2012
	Average	Minimum	Maximum	
Interest rate	\$ 12.4	\$ 9.5	\$ 16.5	\$ 11.7
Foreign exchange	0.8	-	2.0	0.9
Equity	1.5	0.9	2.3	1.7
Diversification	(2.4)	N/M	N/M	(1.7)
Overall portfolio	12.3	9.3	17.0	12.6

VaR (a) (in millions)	Average	2nd Quarter 2012		June 30, 2012
		Minimum	Maximum	
Interest rate	\$ 8.9	\$ 5.0	\$ 13.2	\$ 11.2
Foreign exchange	1.7	0.5	3.7	0.5
Equity	2.0	1.3	3.2	1.4
Diversification	(3.7)	N/M	N/M	(3.1)
Overall portfolio	8.9	5.0	13.6	10.0

VaR (a) (in millions)	Average	3rd Quarter 2011		Sept. 30, 2011
		Minimum	Maximum	
Interest rate	\$ 8.6	\$ 5.6	\$ 12.7	\$ 10.9
Foreign exchange	3.2	1.7	5.3	3.8
Equity	3.7	2.2	6.0	4.1
Diversification	(5.4)	N/M	N/M	(5.5)
Overall portfolio	10.1	6.8	15.0	13.3

VaR (a) (in millions)	Average	Year-to-date 2012	
		Minimum	Maximum
Interest rate	\$ 10.3	\$ 5.0	\$ 16.5
Foreign exchange	2.0	-	4.8
Equity	1.9	0.9	3.4
Diversification	(3.5)	N/M	N/M
Overall portfolio	10.7	5.0	17.0

VaR (a) (in millions)	Average	Year-to-date 2011	
		Minimum	Maximum
Interest rate	\$ 6.6	\$ 3.0	\$ 12.7
Foreign exchange	2.6	0.4	5.3
Equity	3.0	1.8	6.1
Credit	0.1	-	0.3
Diversification	(4.5)	N/M	N/M
Overall portfolio	7.8	4.1	15.0

(a) VaR figures do not reflect the impact of CVA guidance in ASC 820. This is consistent with the Regulatory treatment. VaR exposure does not include the impact of the Company's consolidated investment management funds and seed capital investments.

N/M - Because the minimum and maximum may occur on different days for different risk components, it is not meaningful to compute a portfolio diversification effect.

During the third quarter of 2012, interest rate risk generated 84% of average VaR, foreign exchange risk generated 6% of average VaR and equity risk generated 10% of average VaR. During the third

quarter of 2012, our daily trading loss did not exceed our calculated VaR amount on any given day.

The following table of total daily trading revenue or loss illustrates the number of trading days in which our revenue or loss fell within particular ranges during the past year.

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Distribution of trading revenues (losses) (a)

<i>(dollar amounts)</i>	Quarter ended				
	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	June 30, 2012	Sept. 30, 2012
<i>in millions</i>			Number of days		
Revenue range:					
Less than \$(2.5)	-	-	-	-	-
\$(2.5) - \$0	2	1	1	4	2
\$0 - \$2.5	21	19	25	25	35
\$2.5 - \$5.0	26	33	32	29	23
More than \$5.0	15	8	4	6	3

(a) *Distribution of trading revenues (losses) does not reflect the impact of the CVA and corresponding hedge.*

Foreign exchange and other trading

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

As required by Accounting Standards Codification (ASC) 820 *Fair Value Measurements and Disclosures*, we reflect external credit ratings as well as observable credit default swap spreads for both ourselves as well as our counterparties when measuring the fair value of our derivative positions. Accordingly, the valuation of our derivative positions is sensitive to the current changes in our own credit spreads, as well as those of our counterparties. In addition, in cases where a counterparty is deemed impaired, further analyses are performed to value such positions.

At Sept. 30, 2012, our over-the-counter (OTC) derivative assets of \$5.0 billion included a CVA deduction of \$150 million, including \$7 million related to the credit quality of certain CDO counterparties and Lehman. Our OTC derivative liabilities of \$6.7 billion included a debit valuation adjustment (DVA) of \$37 million related to our own credit spread. Net of hedges, the CVA decreased \$28 million and the DVA decreased \$4 million in the third quarter of 2012. The net impact of these adjustments increased foreign exchange and other trading revenue by \$24 million in the third quarter of 2012.

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In the second quarter of 2012, net of hedges, the CVA decreased \$2 million and the DVA decreased \$1 million. The net impact of these adjustments increased foreign exchange and other trading revenue by \$1 million in the second quarter of 2012.

In the third quarter of 2011, net of hedges, the CVA increased \$54 million and the DVA increased \$14 million. The net impact of these adjustments decreased foreign exchange and other trading revenue by \$40 million in the third quarter of 2011.

The table below summarizes the risk ratings for our foreign exchange and interest rate derivative counterparty credit exposure. This information indicates the degree of risk to which we are exposed and significant changes in ratings classifications for which our foreign exchange and other trading activity could result in increased risk for us.

Foreign exchange and other trading**counterparty risk rating profile (a)**

	Sept. 30, 2011	Dec. 31, 2011	Quarter ended March 31, 2012	June 30, 2012	Sept. 30, 2012
Rating:					
AAA to AA-	48%	47%	45%	40%	43%
A+ to A-	27	27	29	31	27
BBB+ to BBB-	21	22	22	22	23
Noninvestment grade (BB+ and lower)	4	4	4	7	7
Total	100%	100%	100%	100%	100%

(a) Represents credit rating agency equivalent of internal credit ratings.

Asset/liability management

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

An earnings simulation model is the primary tool used to assess changes in pre-tax net interest revenue. The model incorporates management's assumptions regarding interest rates, balance changes on core deposits, market spreads, changes in the prepayment behavior of loans and securities and the impact of derivative financial instruments used for interest rate risk management purposes. These assumptions have been developed through a

combination of historical analysis and future expected pricing behavior and are inherently uncertain. As a result, the earnings simulation model cannot precisely estimate net interest revenue or the impact of higher or lower interest rates on net interest revenue. Actual results may differ from projected results due to timing, magnitude and frequency of interest rate changes, and changes in market conditions and management's strategies, among other factors.

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

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

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

Estimated changes in net interest revenue at Sept. 30, 2012

(dollar amounts in millions)

up 200 bps parallel rate shift vs. baseline <i>(a)</i>	\$ 573
up 100 bps parallel rate shift vs. baseline <i>(a)</i>	414
Long-term up 50 bps, short-term unchanged <i>(b)</i>	129
Long-term down 50 bps, short-term unchanged <i>(b)</i>	(104)

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

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

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

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

- Global economic uncertainty, particularly in Europe;
- Our ratings relative to other financial institutions' ratings;
- Money market mutual fund reform; and
- Extension of existing unlimited FDIC insurance on transaction accounts.

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

Off-balance sheet arrangements

Off-balance sheet arrangements discussed in this section are limited to guarantees, retained or contingent interests, support agreements, and obligations arising out of unconsolidated variable interest entities. For BNY Mellon, these items include certain credit guarantees and securitizations. Guarantees include: lending-related guarantees issued as part of our corporate banking business; securities lending indemnifications issued as part of our servicing and fiduciary businesses; and support agreements issued to customers in our Investment Services businesses. See Note 18 of the Notes to Consolidated Financial Statements for a further discussion of our off-balance sheet arrangements.

Supplemental information Explanation of Non-GAAP financial measures

BNY Mellon has included in this Form 10-Q certain Non-GAAP financial measures based upon tangible common shareholders' equity. BNY Mellon believes that the ratio of Tier 1 common equity to risk-weighted assets and the ratio of tangible common shareholders' equity to tangible assets of operations are measures of capital strength that provide additional useful information to investors, supplementing the Tier 1 and Total capital ratios which are utilized by regulatory authorities. The ratio of Basel I Tier 1 common equity to risk-weighted assets excludes preferred stock, as well as the trust preferred securities which will be phased out of Basel I Tier 1 regulatory capital beginning in 2013. Unlike the Basel I Tier 1 and Total capital ratios, the tangible common shareholders' equity ratio fully incorporates those changes in investment securities valuations which are reflected in total shareholders' equity. In addition, this ratio is

expressed as a percentage of the actual book value of assets, as opposed to a percentage of a risk-based reduced value established in accordance with regulatory requirements, although BNY Mellon in its calculation has excluded certain assets which are given a zero percent risk-weighting for regulatory purposes. Further, BNY Mellon believes that the return on tangible common equity measure, which excludes goodwill and intangible assets net of deferred tax liabilities, is a useful additional measure for investors because it presents a measure of BNY Mellon's performance in reference to those assets which are productive in generating income. BNY Mellon has presented its estimated Basel III Tier 1 common equity ratio on a basis that is representative of how it currently understands the Basel III rules. Management views the Basel III Tier 1 common equity ratio as a key measure in monitoring BNY Mellon's capital position. The presentation of the Basel III Tier 1 common equity ratio allows investors to compare BNY Mellon's Basel III Tier 1 common equity ratio with estimates presented by other companies. Additionally, BNY Mellon has provided a measure of tangible book value per share, which it believes provides additional useful information as to the level of such assets in relation to shares of common stock outstanding.

BNY Mellon has presented revenue measures which exclude the effect of noncontrolling interests related to consolidated investment management funds and other revenue related to the Shareowner Services business, which was sold on Dec. 31, 2011, and expense measures which exclude M&I expenses, litigation charges, restructuring charges, amortization of intangible assets and direct expenses related to the Shareowner Services business. Return on equity measures and operating margin measures, which exclude some or all of these items, are also presented. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons which relate to the ability of BNY Mellon to enhance revenues and limit expenses in circumstances where such matters are within BNY Mellon's control. The excluded items in general relate to certain ongoing charges as a result of prior transactions or where we have incurred charges. M&I expenses primarily relate to the acquisitions of Global Investment Servicing on July 1, 2010 and BHF Asset Servicing GmbH on Aug. 2, 2010. M&I expenses generally continue for approximately three years after the transaction and can vary on a year-to-year basis depending on the stage of the integration. BNY Mellon believes that the exclusion of M&I expenses

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provides investors with a focus on BNY Mellon's business as it would appear on a consolidated going-forward basis, after such M&I expenses have ceased. Future periods will not reflect such M&I expenses, and thus may be more easily compared with our current results if M&I expenses are excluded. Litigation charges represent accruals for loss contingencies that are both probable and reasonably estimable, but exclude standard business-related legal fees. Restructuring charges relate to our operational excellence initiatives and migrating positions to global delivery centers. Excluding these charges permits investors to view expense on a basis consistent with how management views the business. BNY Mellon also presents revenue and noninterest expense results relating to the Shareowner Services business so that an investor may compare those results with other periods, which do not include the Shareowner Services business.

The presentation of income (loss) of consolidated investment management funds, net of net income (loss) attributable to noncontrolling interests related to the consolidation of certain investment management funds, permits investors the ability to view revenue on a basis consistent with how management views the business. BNY Mellon believes that these presentations, as a supplement to GAAP information, give investors a clearer picture of the results of its primary businesses. In this Form 10-Q, the net interest margin is presented on an FTE basis. We believe that this presentation provides comparability of amounts arising from both taxable and tax-exempt sources, and is consistent with industry practice. The adjustment to an FTE basis has no impact on net income.

Each of these measures as described above is used by management to monitor financial performance, both on a company-wide and business-level basis.

The following table presents the calculation of the return on common equity and the return on tangible common equity.

Return on common equity and tangible common equity

<i>(dollars in millions)</i>	3Q12	2Q12	3Q11	YTD12	YTD11
Net income applicable to common shareholders of The Bank of					
New York Mellon Corporation GAAP	\$ 720	\$ 466	\$ 651	\$ 1,805	\$ 2,011
Add: Amortization of intangible assets, net of tax	60	61	67	182	203
Net income applicable to common shareholders of The Bank of New York Mellon Corporation excluding amortization of intangible assets Non-GAAP	780	527	718	1,987	2,214
Add: M&I, litigation and restructuring charges	18	225	55	308	130
Net income applicable to common shareholders of The Bank of New York Mellon Corporation excluding amortization of intangible assets and M&I, litigation and restructuring charges Non-GAAP	\$ 798	\$ 752	\$ 773	\$ 2,295	\$ 2,344
Average common shareholders' equity	\$ 34,522	\$ 34,123	\$ 34,008	\$ 34,123	\$ 33,437
Less: Average goodwill	17,918	17,941	18,156	17,941	18,157
Average intangible assets	4,926	5,024	5,453	5,023	5,554
Add: Deferred tax liability tax deductible goodwill	1,057	982	915	1,057	915
Deferred tax liability non-tax deductible intangible assets	1,339	1,400	1,604	1,339	1,604
Average tangible common shareholders' equity Non-GAAP	\$ 14,074	\$ 13,540	\$ 12,918	\$ 13,555	\$ 12,245
Return on common equity GAAP (a)	8.3%	5.5%	7.6%	7.1%	8.0%
Return on common equity excluding amortization of intangible assets and M&I, litigation and restructuring charges Non-GAAP (a)	9.2%	8.9%	9.0%	9.0%	9.4%
Return on tangible common equity Non-GAAP(a)	22.1%	15.7%	22.1%	19.6%	24.2%
Return on tangible common equity excluding M&I, litigation and restructuring charges Non-GAAP (a)	22.5%	22.4%	23.8%	22.6%	25.6%

(a) Annualized.

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The following table presents the calculation of the pre-tax operating margin ratio.

Pre-tax operating margin

<i>(dollars in millions)</i>	3Q12	2Q12	3Q11	YTD12	YTD11
Income before income taxes GAAP	\$ 975	\$ 589	\$ 945	\$ 2,449	\$ 2,928
Less: Net income (loss) attributable to noncontrolling interests of consolidated investment management funds	25	29	13	65	78
Add: Amortization of intangible assets	95	97	106	288	322
M&I, litigation and restructuring charges	26	378	92	513	214
Income before income taxes excluding net income (loss) attributable to noncontrolling interests of consolidated investment management funds, amortization of intangible assets and M&I, litigation and restructuring charges Non-GAAP	\$ 1,071	\$ 1,035	\$ 1,130	\$ 3,185	\$ 3,386
Fee and other revenue GAAP	\$ 2,879	\$ 2,826	\$ 2,887	\$ 8,543	\$ 8,781
Income from consolidated investment management funds GAAP	47	57	32	147	205
Net interest revenue GAAP	749	734	775	2,248	2,204
Total revenue GAAP	3,675	3,617	3,694	10,938	11,190
Less: Net income (loss) attributable to noncontrolling interests of consolidated investment management funds	25	29	13	65	78
Total revenue excluding net income (loss) attributable to noncontrolling interests of consolidated investment management funds Non-GAAP	\$ 3,650	\$ 3,588	\$ 3,681	\$ 10,873	\$ 11,112
Pre-tax operating margin (a)	27%	16%	26%	22%	26%
Pre-tax operating margin excluding net income (loss) attributable to noncontrolling interests of consolidated investment management funds, amortization of intangible assets and M&I, litigation and restructuring charges Non-GAAP (a)	29%	29%	31%	29%	30%

(a) Income before taxes divided by total revenue.

The following table presents the calculation of the equity to assets ratio and book value per common share.

<i>(dollars in millions, unless otherwise noted)</i>	Sept. 30, 2012	June 30, 2012	Dec. 31, 2011	Sept. 30, 2011
Equity to assets and book value per common share				
BNY Mellon shareholders equity at period end GAAP	\$ 36,218	\$ 34,533	\$ 33,417	\$ 33,695
Less: Preferred stock	1,036	500	-	-
BNY Mellon common shareholders equity at period end GAAP	35,182	34,033	33,417	33,695
Less: Goodwill	17,984	17,909	17,904	18,045
Intangible assets	4,882	4,962	5,152	5,380
Add: Deferred tax liability tax deductible goodwill	1,057	982	967	915
Deferred tax liability non-tax deductible intangible assets	1,339	1,400	1,459	1,604
Tangible BNY Mellon common shareholders equity at period end Non-GAAP	\$ 14,712	\$ 13,544	\$ 12,787	\$ 12,789
Total assets at period end GAAP	\$ 339,944	\$ 330,283	\$ 325,266	\$ 322,187
Less: Assets of consolidated investment management funds	11,369	10,955	11,347	12,063
Subtotal assets of operations Non-GAAP	328,575	319,328	313,919	310,124
Less: Goodwill	17,984	17,909	17,904	18,045
Intangible assets	4,882	4,962	5,152	5,380
Cash on deposit with the Federal Reserve and other central banks (a)	73,037	72,838	90,230	68,293
Tangible total assets of operations at period end Non-GAAP	\$ 232,672	\$ 223,619	\$ 200,633	\$ 218,406
BNY Mellon shareholders equity to total assets GAAP	10.7%	10.5%	10.3%	10.5%
BNY Mellon common shareholders equity to total assets GAAP	10.3%	10.3%	10.3%	10.5%
Tangible BNY Mellon common shareholders equity to tangible assets of operations Non-GAAP	6.3%	6.1%	6.4%	5.9%
Period-end common shares outstanding (in thousands)	1,168,607	1,181,298	1,209,675	1,212,632
Book value per common share	\$ 30.11	\$ 28.81	\$ 27.62	\$ 27.79
Tangible book value per common share Non-GAAP	\$ 12.59	\$ 11.47	\$ 10.57	\$ 10.55

(a) Assigned a zero percent risk weighting by the regulators.

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The following table presents the calculation of Basel I Tier 1 common equity to risk-weighted assets ratio Non-GAAP.

Calculation of Basel I Tier 1 common equity to**risk-weighted assets ratio Non-GAAP**

	Sept. 30, 2012	June 30, 2012	Dec. 31, 2011	Sept. 30, 2011
<i>(dollars in millions)</i>				
Total Tier 1 capital Basel I	\$ 16,797	\$ 15,722	\$ 15,389	\$ 14,920
Less: Trust preferred securities	1,173	1,164	1,659	1,660
Preferred stock	1,036	500	-	-
Total Tier 1 common equity	\$ 14,588	\$ 14,058	\$ 13,730	\$ 13,260
Total risk-weighted assets Basel I	\$ 109,867	\$ 106,764	\$ 102,255	\$ 106,256
Basel I Tier 1 common equity to risk-weighted assets ratio Non-GAAP	13.3%	13.2%	13.4%	12.5%

The following table presents the calculation of our estimated Basel III Tier 1 common equity ratio Non-GAAP.

Estimated Basel III Tier 1 common equity ratio Non-GAAP (a)

	Sept. 30, 2012	June 30, 2012	Dec. 31, 2011	Sept. 30, 2011
<i>(dollars in millions)</i>				
Total Tier 1 capital Basel I	\$ 16,797	\$ 15,722	\$ 15,389	\$ 14,920
Less: Trust preferred securities	1,173	1,164	1,659	1,660
Preferred stock	1,036	500	-	-
Adjustments related to available-for-sale securities and pension liabilities included in accumulated other comprehensive income (b)	(124)	513	944	470
Adjustments related to equity method investments (b)	571	558	555	590
Deferred tax assets	46	46	-	-
Net pension fund assets (b)	43	43	90	493
Other	3	2	(3)	26
Total estimated Basel III Tier 1 common equity	\$ 14,049	\$ 12,896	\$ 12,144	\$ 11,681
Total risk-weighted assets Basel I	\$ 109,867	\$ 106,764	\$ 102,255	\$ 106,256
Add: Adjustments (c)	41,816	41,493	67,813	74,224
Total estimated Basel III risk-weighted assets (d)	\$ 151,683	\$ 148,257	\$ 170,068	\$ 180,480
Estimated Basel III Tier 1 common equity ratio Non-GAAP	9.3%	8.7%	7.1%	6.5%

(a) The estimated Basel III Tier 1 common equity ratio Non-GAAP at Sept. 30, 2012 and June 30, 2012 is based on the NPRs and final market risk rule initially released on June 7, 2012 and published in the Federal Register on Aug. 30, 2012, on a fully phased-in basis. The estimated Basel III Tier 1 common equity ratios at Dec. 31, 2011 and Sept. 30, 2011 were based on our interpretation of prior Basel III guidance and the proposed market risk rule.

(b) The NPRs and prior Basel III guidance do not add back to capital the adjustment to other comprehensive income that Basel I makes for pension liabilities and available-for-sale securities. Also, under the NPRs and prior Basel III guidance, pension assets recorded on the balance sheet and adjustments related to equity method investments are a deduction from capital.

(c) Primary differences between risk-weighted assets determined under Basel I compared with the NPRs and prior Basel III guidance include: the determination of credit risk under Basel I uses predetermined risk weights and asset classes, and relies in part on the use of external credit ratings, while the NPRs use, in addition to the broader range of predetermined risk weights and asset classes, certain alternatives to external credit ratings. Securitization exposures receives a higher risk-weighting under the NPRs and prior Basel III guidance than Basel I; also, the NPRs and prior Basel III guidance includes additional adjustments for operational risk, market risk, counterparty credit risk and equity exposures.

(d) Calculated on an Advanced Approaches basis, as amended by Basel III.

The following table presents investment management fees net of performance fees.

Investment management and performance fees

	3Q12	2Q12	3Q11	3Q12 vs.	
<i>(dollars in millions)</i>				3Q11	2Q12
Investment management and performance fees	\$ 779	\$ 797	\$ 729	7%	(2)%
Less: Performance fees	10	54	11	N/M	N/M
Investment management fees	\$ 769	\$ 743	\$ 718	7%	3%

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The following table presents income from consolidated investment management funds, net of net income (loss) attributable to noncontrolling interests.

Income from consolidated investment management funds, net of noncontrolling interests

<i>(dollars in millions)</i>	3Q12	2Q12	3Q11	YTD12	YTD11
Income (loss) from consolidated investment management funds	\$ 47	\$ 57	\$ 32	\$ 147	\$ 205
Less: Net income (loss) attributable to noncontrolling interests of consolidated investment management funds	25	29	13	65	78
Income from consolidated investment management funds, net of noncontrolling interests	\$ 22	\$ 28	\$ 19	\$ 82	\$ 127

The following table presents the line items in the Investment Management business impacted by the consolidated investment management funds.

Income from consolidated investment management funds, net of noncontrolling interests

<i>(dollars in millions)</i>	3Q12	2Q12	3Q11	YTD12	YTD11
Investment management and performance fees	\$ 20	\$ 20	\$ 27	\$ 62	\$ 87
Other (Investment income)	2	8	(8)	20	40
Income from consolidated investment management funds, net of noncontrolling interests	\$ 22	\$ 28	\$ 19	\$ 82	\$ 127

The following table presents fee and other revenue excluding the impact of the Shareowner Services business.

Fee and other revenue excluding Shareowner Services			3Q12 vs.		Year-to-date		YTD12	
								vs.
<i>(dollars in millions)</i>	3Q12	2Q12	3Q11	3Q11	2Q12	2012	2011	YTD11
Investment services fees:								
Asset servicing	\$ 942	\$ 950	\$ 922	2%	(1)%	\$ 2,835	\$ 2,812	1%
Issuer 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	1,752	(4)	1	4,979	5,100	(2)
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	618	(11)
Distribution and servicing	48	46	43	12	4	140	145	(3)
Financing-related fees	46	37	38	21	24	127	126	1
Investment and other income	124	51	83	N/M	N/M	314	309	2
Total fee revenue	2,857	2,779	2,845	-	3	8,434	8,570	(2)
Net securities gains (losses)	22	50	(2)	N/M	N/M	112	51	N/M
Total fee and other revenue	\$ 2,879	\$ 2,829	\$ 2,843	1%	2%	\$ 8,546	\$ 8,621	(1)%

Recent accounting and regulatory developmentsRecently Issued Accounting Standards*ASU 2011-11 Disclosures about Offsetting Assets and Liabilities*

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU 2011-11), Disclosures about Offsetting Assets and Liabilities . Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and

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instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. The amendments are effective for annual reporting periods beginning on or after Jan. 1, 2013. An entity would be required to provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU will not impact our results of operations.

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Table of Contents*ASU 2012-02 Testing Indefinite-Lived Intangible Assets for Impairment*

In July 2012, the FASB issued ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. This guidance allows an entity an option to first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired. If the intangible asset is impaired, an entity is required to perform the quantitative impairment test. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not that the asset is impaired. An entity choosing to perform the qualitative assessment would need to identify and consider the events and circumstances that, individually or in the aggregate, most significantly affect an indefinite-lived intangible asset's fair value. Examples of events and circumstances that should be considered, include deterioration in the entity's operating environment, entity-specific events, such as a change in management, and overall financial performance, such as negative or declining cash flows. An entity also should consider any positive and mitigating events and circumstances, as well as whether there have been changes to the carrying amount of the indefinite-lived intangible asset. An entity can choose to perform the qualitative assessment on none, some, or all of its indefinite-lived intangible assets. An entity can bypass the qualitative assessment and perform the quantitative impairment test for any indefinite-lived intangible in any period. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after Sept. 15, 2012.

*Proposed Accounting Standards**Proposed ASU Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

In May 2010, the FASB issued a proposed ASU, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. Under this proposed ASU, most financial instruments would be measured at fair value in the balance sheet. In January 2011, the FASB preliminarily determined

not to require certain financial assets to be measured at fair value on the balance sheet.

Measurement of a financial instrument would be determined based on its characteristics and an entity's business strategy and would fall into one of the following three classifications:

Fair value - Net income encompasses financial assets used in an entity's trading or held-for-sale activities. Changes in fair value would be recognized in net income.

Fair value - Other comprehensive income includes financial assets held primarily for investing activities, including those used to manage interest rate or liquidity risk. Changes in fair value would be recognized in other comprehensive income.

Amortized cost includes financial assets related to the advancement of funds (through a lending or customer-financing activity) that are managed with the intent to collect those cash flows (including interest and fees).

The FASB reached tentative decisions in other areas, including classification and measurement of financial liabilities and the equity method of accounting.

The FASB tentatively decided that the business strategy should be determined by the business activities that an entity uses in acquiring and managing financial assets. The FASB plans to re-expose the proposed amendments for public comment. Both the FASB and the International Accounting Standards Board (IASB) discussed effective dates pertaining to the financial instruments project and noted that such a date would not be for several years.

Supplementary Document Impairment

On Jan. 31, 2011, the FASB issued a Supplementary Document, *Impairment*. The Supplementary Document proposes to replace the incurred loss impairment model under U.S. GAAP with an expected loss impairment model. The document focuses on when and how credit impairment should be recognized. The proposal is limited to open portfolios of assets, such as portfolios that are constantly changing through originations, purchases, transfers, write-offs, sales and repayments. The proposal in the Supplementary Document would apply to loans and debt instruments under U.S. GAAP that are managed on an open portfolio basis, provided they are not measured at fair value

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with changes in fair value recognized in net income. In the third quarter of 2011, the FASB and the IASB revised the model from a two-category approach for splitting the debt investment portfolio to a three category approach to better reflect the general pattern of credit quality deterioration. The revised impairment model continues to develop. An exposure draft with the new proposed model is targeted for 2012.

Proposed ASU Revenue from Contracts with Customers

In June 2010, the FASB issued a proposed ASU, Revenue from Contracts with Customers. This proposed ASU is the result of a joint project of the FASB and the IASB to clarify the principles for recognizing revenue and develop a common standard for U.S. GAAP and IFRS. This proposed ASU would establish a broad principle that would require an entity to identify the contract with a customer, identify the separate performance obligations in the contract, determine the transaction price, allocate the transaction price to the separate performance obligations and recognize revenue when each separate performance obligation is satisfied. In 2011, the FASB and the IASB revised several aspects of the original proposal to include distinguishing between goods and services, segmenting contracts, accounting for warranty obligations and deferring contract origination costs.

In November 2011, the FASB re-exposed the proposed ASU. A final standard is expected to be issued in 2013. A retrospective application transition method would be required, but the FASB and IASB provided certain transition reliefs to reduce the burden on preparers. The FASB and IASB tentatively decided that the effective date of the proposed standard would not be earlier than annual reporting periods beginning on or after Jan. 1, 2015. The FASB decided to prohibit early application while the IASB decided to permit early application.

Proposed ASU Principal versus Agent Analysis

In November 2011, the FASB issued a proposed ASU Principal versus Agent Analysis. This proposed ASU would rescind the 2010 indefinite deferral of FAS 167 for certain investment funds, including mutual funds, hedge funds, mortgage real estate investment funds, private equity funds, and venture capital funds, and amends the pre-existing guidance for evaluating consolidation of voting

general partnerships and similar entities. The proposed ASU also amends the criteria for determining whether an entity is a variable interest entity under FAS 167, which could affect whether an entity is within its scope. Accordingly, certain funds that previously were not consolidated must be reviewed to determine whether they will now be required to be consolidated. The proposed accounting standard will continue to require BNY Mellon to determine whether or not it has a variable interest in a variable interest entity. However, consolidation of its variable interest entity and voting general partnership asset management funds will be based on whether or not BNY Mellon, as the asset manager, uses its power as a decision maker as either a principal or an agent. Based on a preliminary review of the proposed ASU, we do not expect to be required to consolidate additional mutual funds, hedge funds, mortgage real estate investment funds, private equity funds, and venture capital funds. In addition, we expect to de-consolidate a substantial portion of the CLOs we currently consolidate, with further deconsolidation possible depending on future changes to BNY Mellon's investment in subordinated notes. The FASB is currently evaluating comment letters received and expects to issue a final ASU in the fourth quarter of 2012.

FASB and IASB project on Leases

In August 2010, the FASB and IASB issued a joint proposed ASU, Leases. FASB has tentatively decided that lessees would apply a right-of-use accounting model. This would require the lessee to recognize both a right-of-use asset and a corresponding liability to make lease payments at the lease commencement date, both measured at the present value of the lease payments. The right-of-use asset would be amortized on a systematic basis that would reflect the pattern of consumption of the economic benefits of the leased asset. The liability to make lease payments would be subsequently de-recognized over time by applying the effective interest method to apportion the periodic payment to reductions in the liability to make lease payments and interest expense. Lessors would account for leases by applying a receivable and residual accounting approach. The lessor would recognize a right to receive lease payments and a residual asset at the date of the commencement of the lease. The lessor would initially measure the right to receive lease payments at the sum of the present value of the lease payments, discounted using the rate the lessor charges the lessee. The lessor would initially

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measure the residual asset as an allocation of the carrying amount of the underlying asset and would subsequently measure the residual asset by accreting it over the lease term, using the rate the lessor charges the lessee. The FASB is expected to re-expose the standard during 2013.

Proposed ASU Disclosures about Liquidity Risk and Interest Rate Risk

In June 2012, the FASB issued a proposed ASU, *Disclosures about Liquidity Risk and Interest Rate Risk*. This proposed ASU requires new qualitative and quantitative disclosures about liquidity and interest rate risk. The proposed disclosures are required for both interim and annual periods. Financial institutions would be required to provide a tabular liquidity gap maturity analysis that discloses carrying amounts of various classes of financial assets and liabilities categorized by their expected maturities. In addition, all companies would need to disclose in a tabular form by asset class, their available liquid funds and additional borrowing capacity. This disclosure would also be supplemented with a qualitative analysis. For interest rate risk, financial institutions would be required to disclose repricing gap analysis in a tabular form that would show how the carrying amounts of different classes of financial assets and liabilities reprice over specified time periods. In addition, financial institutions would also provide certain interest rate sensitivity disclosures about the effects on its net income. The proposed ASU does not include an effective date.

Proposed ASU Presentation of Items Reclassified Out of Accumulated Other Comprehensive Income

In August 2012, the FASB issued a proposed ASU, *Presentation of Items Reclassified Out of Accumulated Other Comprehensive Income*. This proposed ASU would improve the presentation of items reclassified out of accumulated other comprehensive income. However, it would not amend the current requirements for the reporting of net income or other comprehensive income in the financial statements. Comments on this proposed ASU were due by Oct. 15, 2012.

Adoption of new accounting standards

For a discussion of the adoption of new accounting standards, see Note 2 of the Notes to Consolidated Financial Statements.

Regulatory developments

The following discussion should be read in conjunction with the *Business Supervision and Regulation* and *Regulatory developments* sections in our 2011 Annual Report. We are currently assessing the following regulatory developments, which may have an impact on BNY Mellon's business.

Federal Reserve's Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies

As required by the Dodd-Frank Act, the Federal Reserve has proposed enhanced prudential standards applicable to bank holding companies (BHCs) with total consolidated assets of \$50 billion or more like BNY Mellon (often referred to as systemically important financial institutions or SIFIs). The Dodd-Frank Act mandates that the requirements applicable to SIFIs be more stringent than those applicable to other financial companies. In December 2011, the Federal Reserve issued a Notice of Proposed Rulemaking establishing enhanced prudential standards for:

- risk-based capital requirements and leverage limits;
- stress testing of capital;
- liquidity requirements;
- overall risk management requirements; and
- concentration/credit exposure limits.

These Proposed SIFI Rules address a wide, diverse array of regulatory areas, each of which is highly complex. In some cases they would implement financial regulatory requirements being proposed for the first time, and in others overlap with related regulatory reforms. The Proposed SIFI Rules also address the Dodd-Frank Act's early remediation requirements for BHCs with total consolidated assets of \$50 billion or more. The proposed remediation rules are designed to require action beginning in the earlier stages of a company's financial distress based on certain triggers, including capital and leverage, stress test results, liquidity and risk management. The full impact of the Proposed SIFI Rules will not be known until the rules in their entirety, and other regulatory initiatives that overlap with the rules, are finalized. We are currently evaluating the proposed SIFI rules and the impact of including derivatives and repos in OCC lending limits.

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Resolution Planning

As required by the Dodd-Frank Act, the Federal Reserve and FDIC jointly issued a final rule requiring certain organizations, including each BHC with consolidated assets of \$50 billion or more, to report periodically to regulators a resolution plan for its rapid and orderly resolution in the event of material financial distress or failure. In addition, the FDIC has issued a final rule that requires insured depository institutions with \$50 billion or more in total assets, such as The Bank of New York Mellon, to submit to the FDIC periodic plans for resolution in the event of the institution's failure.

The two resolution plan rules are complementary and we submitted our initial resolution plan in conformity with both rules on Oct. 1, 2012. The public portions of our resolution plan are available on the FDIC's website. We are required to submit annual resolution plans by July 1 starting in 2013. Resolution planning efforts might also become required in foreign jurisdictions where we have operations, and we submitted the first phase of our UK resolution plan to the Financial Services Authority in June of 2012.

Regulatory Stress-Testing Requirements

In October 2012, the Federal Reserve, OCC and FDIC finalized regulations implementing the stress testing requirements required under the Dodd-Frank Act. Under these regulations, we will be required to undergo regulatory stress tests conducted by the Federal Reserve annually, and to conduct our own internal stress tests pursuant to regulatory requirements twice annually. In addition, both BNY Mellon, N.A. and The Bank of New York Mellon may be required to conduct their own annual internal stress tests (although both BNY Mellon, N.A. and The Bank of New York Mellon may be permitted to combine the reporting and disclosure of their stress test results with the results of the Parent). These stress testing requirements, which begin in the fourth quarter of this year for the Parent, are expected to involve both company-run and Federal Reserve-run testing of our capital under a minimum of three scenarios, including baseline, adverse and severely adverse, which will be provided by the Federal Reserve. Results from our annual company-run stress tests will be reported to the appropriate regulators and we will be required to publish summaries of the results of the company-run stress tests under the severely adverse scenario beginning in 2013. In addition, the Federal Reserve will publish summaries of the results of the Federal Reserve-run stress tests under the severely adverse scenario beginning in 2013.

Federal Reserve's Comprehensive Capital Analysis and Review

In November 2011, the Federal Reserve published a final rule requiring BHCs (including BNY Mellon) with \$50 billion or more of total consolidated assets to submit annual capital plans to their respective Federal Reserve Bank. The capital analysis and review process provided for in the rule is known as the Comprehensive Capital Analysis and Review, or CCAR. The capital plans are required to be submitted on an annual basis. Covered BHCs are required to collect and report certain related data on a quarterly basis to allow the Federal Reserve to monitor the companies' progress against their annual capital plans. The comprehensive capital plans, which are prepared using Basel I capital guidelines, include a view of capital adequacy under four scenarios—a BHC-defined baseline scenario, a baseline scenario provided by the Federal Reserve, at least one BHC-defined stress scenario, and a stress scenario provided by the Federal Reserve. Covered BHCs, including BNY Mellon, may pay dividends and repurchase stock only in accordance with a capital plan that has been reviewed by the Federal Reserve and as to which the Federal Reserve has not objected. The rules provide that the Federal Reserve may object to a capital plan if the plan does not show that the covered BHC will meet all minimum regulatory capital ratios and maintain a ratio of Basel I Tier 1 common equity to risk-weighted assets of at least 5% on a *pro forma* basis under expected and stressful conditions throughout the nine-quarter planning horizon covered by the capital plan. The rules also require, among other things, that a covered BHC may not make a capital distribution unless, after giving effect to the distribution, it will meet all minimum regulatory capital ratios and have a ratio of Basel I Tier 1 common equity to risk-weighted assets of at least 5%. As part of this process, BNY Mellon also provides the Federal Reserve with projections covering the time period it will take us to fully comply with Basel III guidelines, including the 7% Tier 1 common equity, 8.5% Tier 1 capital and 3% leverage ratios as well as granular components of those elements, as described further under Basel III and U.S. Capital Reform. Our capital plan was submitted on Jan. 9, 2012. On March 13, 2012, BNY Mellon received notice that the Federal Reserve did not object to our capital plan for 2012, which includes the repurchase of up to \$1.16 billion of outstanding common stock and the continuation of our 13 cents per share quarterly cash dividend.

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The purpose of the Federal Reserve's capital plan review is to ensure that covered BHCs have robust, forward-looking capital planning processes that account for each BHC's unique risks and that permit continued operations during times of economic and financial stress. The Federal Reserve will apply particularly close scrutiny to capital plans contemplating dividend payout ratios exceeding 30% of projected after-tax net income.

Volcker Rule

The section in the Dodd-Frank Act that is commonly referred to as the Volcker Rule requires the U.S. financial regulatory agencies to adopt implementing rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain hedge funds, private equity funds and other designated funds (covered funds). The Federal regulators proposed rules to implement the Volcker Rule, and until those rules are finalized, their application and impact will remain uncertain. BNY Mellon may be affected by an overly inclusive designation of covered funds, proposed limits on inter-affiliate transactions that may constrain some of our custody services and the treatment of overseas directed trustee arrangements. While the Volcker Rule's statutory provisions became effective on July 21, 2012, the Federal Reserve issued interim guidance on April 19, 2012 that provided that banks and their affiliates must conform their covered activities and investments with the final Volcker Rule regulations by July 21, 2014. During this conformance period, banks and their affiliates are expected to engage in good-faith efforts that will result in conformance of all of their covered activities and investments by no later than the end of the conformance period. The Volcker Rule regulations have yet to be finalized and adopted.

Proposed rules removing references to credit ratings

The Dodd-Frank Act requires that all Federal agencies remove from their regulations references to and requirements of reliance on credit ratings and replace them with appropriate alternatives for evaluating creditworthiness. In December 2011, the Office of the Comptroller of the Currency (OCC), Federal Reserve, and FDIC issued a joint Notice of Proposed Rulemaking applicable to certain U.S. banking organizations with significant trading operations that proposed standards of creditworthiness to be used in place of credit ratings when calculating the specific risk capital requirements for covered debt and securitization

positions. The agencies finalized rules relating to capital requirements and investment securities in June 2012.

Task Force on Tri-Party Repo Infrastructure

Regulatory agencies worldwide have begun to re-examine systemic risks to various financial markets, including the tri-party repo market, in which we act as a tri-party repo agent. The Federal Reserve Bank of New York sponsored a Task Force on Tri-Party Repo Infrastructure Reform to examine the risks in the tri-party repo market and to decide what changes should be implemented so that such risks may be mitigated or avoided in future financial crises. The Task Force issued its recommendations on May 17, 2010 and its final report regarding the tri-party repo market on Feb. 15, 2012. 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.

Since May 2010, the Federal Reserve Bank of New York has released monthly reports on the tri-party repo market, including information on aggregate volumes of collateral used in all tri-party repo transactions by asset class, concentrations, and margin levels, which is available at http://www.newyorkfed.org/tripartyrepo/margin_data.html.

Basel III and U.S. Capital Reform

The U.S. Federal bank regulatory agencies' current general risk-based capital guidelines are based on the 1988 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). The Basel Committee issued in June 2004, and updated in November 2005, a revised framework for capital adequacy commonly known as Basel II that sets capital requirements for operational risk and refines the existing capital requirements for credit risk. The U.S. banking agencies have adopted Basel II's advanced internal ratings based approach for credit risk and its advanced measurement approach for operational risk for Advanced Approaches banks (applicable to

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banking institutions like BNY Mellon and its depository institution subsidiaries with \$250 billion or more of total consolidated assets or \$10 billion or more of foreign exposures). The U.S. banking agencies' Basel I risk-based capital guidelines, their Basel II Advanced Approaches and the Basel Committee's Basel III standards are described under "Business Supervision and Regulation" in Part I, Item 1 of our 2011 Annual Report.

In response to Section 171 of the Dodd-Frank Act, also known as the "Collins Amendment", the U.S. banking agencies adopted a final rule in 2011 to replace the transitional floors in the Federal banking agencies' Basel II approaches with a permanent capital floor equal to the risk-based capital requirements under the banking agencies' Basel I risk-based capital guidelines. As a result, U.S. Advanced Approaches banking organizations will be required to calculate their risk-based capital ratios under both the agencies' general risk-based capital rules and their Basel II-based Advanced Approaches. The Advanced Approaches banking organizations will continue to use the current Basel I rules for purposes of the Collins Amendment floor until Jan. 1, 2015 which is the effective date of the standardized approach, discussed below, unless they elect to adopt the standardized approach as the Collins Amendment floor earlier than this date.

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as "Basel III". Three notices of proposed rulemaking ("NPRs"), released by the U.S. banking agencies in June 2012, would both implement many of the capital provisions of Basel III for U.S. banking institutions and substantially revise the agencies' Basel I risk-based capital guidelines referred to in the NPRs as the "standardized approach" to make them more risk sensitive. Comments on the NPRs were due Oct. 22, 2012. As proposed by the NPRs, the implementation of Basel III Advanced Approach will become effective Jan. 1, 2013, with phase-in periods that are consistent with Basel III and described under "Business Supervision and Regulation" in our 2011 Annual Report. If adopted, these rules will be fully phased-in by Jan. 1, 2019. The new risk-weight categories in the standardized approach will not become effective until Jan. 1, 2015. The general impact of the NPRs is described below.

Basel III, including as proposed by the NPRs to be implemented in the U.S., would redefine the components of capital in the numerators of regulatory capital ratios in a more narrow way than existing Basel I and Basel II standards, increase the minimum risk-based capital ratios under both the agencies' Basel II Advanced Approaches and Basel I risk-based capital guidelines, and primarily, with respect to securitizations and exposures to certain counterparties, change the measure of risk-weighted assets in the denominators of regulatory capital ratios. At Sept. 30, 2012, our estimated Basel III Tier 1 common equity ratio was 9.3%, on a fully phased-in basis, based on our understanding of the NPRs and the final market risk rules approved by the U.S. banking agencies and calculated on an Advanced Approaches basis, as amended by Basel III. The increase in the ratio from 8.7% at June 30, 2012 was primarily due to earnings retention and an increase in the value of the investment portfolio, partially offset by higher risk-weighted assets.

The components of the NPRs related to the standardized approach would amend the agencies' Basel I risk-based capital guidelines and replace the risk-weighting categories currently used to calculate risk-weighted assets in the denominator of capital ratios with a broader array of risk weighting categories that are intended to be more risk sensitive. The new risk-weights for the standardized approach range from 0% to 600% as compared to the risk-weights of 0% to 100%, in general, in the agencies' existing Basel I risk-based capital guidelines. Higher risk-weights would apply to a variety of exposures, including certain securitization exposures, equity exposures, claims on securities firms and exposures to counterparties on OTC derivatives. Compared with Basel I, the risk-weighting changes likely to be most significant for BNY Mellon are the replacement of the 20% risk-weight for banks with OECD country risk classification ratings, increased risk-weights for residential mortgages, the removal of the 50% risk-weight cap on derivative transactions, the 100% risk-weight for exposures to securities firms, and the elimination of the 0% risk-weight for commitments of less than one year.

The NPRs, consistent with Basel III, re-defined the components of capital and require higher capital ratios for all banks. As a result, when fully phased-in on Jan. 1, 2019, banking institutions will be required to satisfy three risk-based capital ratios:

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A Tier 1 common equity ratio of at least 7.0%, 4.5% attributable to a minimum Tier 1 common equity ratio and 2.5% attributable to a capital conservation buffer ;

A Tier 1 capital ratio of at least 6.0%, exclusive of the capital conservation buffer (8.5% upon full implementation of the capital conservation buffer); and

A total capital ratio of at least 8.0%, exclusive of the capital conservation buffer (10.5% upon full implementation of the capital conservation buffer).

Additionally, the ratios above could be affected by a new Tier 1 common equity surcharge for certain domestic systemically important banks (D-SIBs) and global systemically important banks (G-SIBs) described below.

All banking institutions will continue to be subject to the U.S. banking agencies' existing minimum leverage ratio of 4.0% (calculated as the ratio of Tier 1 capital to average consolidated assets as reflected on the institution's consolidated financial statements, net of amounts deducted from capital). Additionally, Advanced Approaches banking institutions would become subject to a new leverage ratio commencing Jan. 1, 2015 with full implementation on Jan. 1, 2018. The new leverage ratio would have a minimum of 3% (calculated as the ratio of Tier 1 capital to average balance sheet exposures plus certain average off-balance sheet exposures).

The NPRs apply Basel III's capital conservation buffer to all banking institutions, but apply its countercyclical capital buffer, when applicable, only to Advanced Approaches banks. The NPRs permit Advanced Approaches institutions, such as BNY Mellon, to calculate both the capital conservation buffer and the countercyclical capital buffer using solely Advanced Approaches risk weightings, rather than also calculating the Collins Amendment floor. These buffers are described under Business Supervision and Regulation in our 2011 Annual Report.

In November 2011, the Basel Committee issued final provisions applying a new Tier 1 common equity surcharge to certain G-SIBs, including BNY Mellon. In its Proposed SIFI Rules and the NPRs, the Federal Reserve indicated that it intends to propose, in a separate rulemaking, a Tier 1 common equity surcharge for G-SIBs based on the Basel Committee's final rules. In November 2012, the

Basel Committee and the Financial Stability Board updated the list of G-SIBs, and identified provisional Tier 1 common equity surcharges applicable to each G-SIB, including BNY Mellon. Each G-SIB would initially be assigned to one of four buckets, with the capital surcharges for those buckets ranging from 1% to 2.5%. There would be an additional 3.5% bucket that could be applied to a G-SIB that materially increases its global systemic importance, for example, by increasing total assets. In November 2012, BNY Mellon was provisionally assigned to the 1.5% capital surcharge bucket. The G-SIB equity surcharge provisions, like the rest of Basel III and the Dodd-Frank Act provisions referenced above, are subject to interpretation and implementation by U.S. regulatory authorities.

In October 2012, the Basel Committee published a framework establishing the principles to be applied by national regulators to apply a new Tier 1 common equity surcharge to certain D-SIBs. The D-SIB framework is much less detailed than the G-SIB final rules and does not, for example, specify the amount or potential range of a surcharge. It provides that if a banking institution in a particular country is identified as both a G-SIB and a D-SIB, then the surcharge will be the higher of the applicable G-SIB or D-SIB surcharge. Because of the discretion provided under the D-SIB framework to national authorities in their implementing measures, BNY Mellon is not able to evaluate its potential impact on BNY Mellon at this point.

Our fee-based model enables us to maintain a relatively low risk asset mix, primarily composed of high-quality securities, central bank deposits, liquid placements and predominantly investment grade loans. As a result of our asset mix, we have the flexibility to manage to a lower level of risk-weighted assets over time.

Capital disclosure requirements

In June 2012, the Basel Committee issued final rules on the *Composition of Capital Disclosure Requirements*, which establishes disclosure requirements that aim to improve the transparency and comparability of a bank's capital base. The final rules include the following:

A common template for banks to use in reporting the breakdown of their regulatory capital when the transition period for the phasing-in of deductions ends on Jan. 1, 2018;

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A 3-step approach for banks to follow to ensure that there is full reconciliation of all regulatory capital elements back to the published financial statements;

A common template for banks to use to meet the Basel III requirement to provide a description of the main features of capital instruments;

A requirement that banks provide the full terms and conditions of capital instruments on their websites and the requirement to report the calculation of any ratios involving components of regulatory capital; and

A template for banks to use during the transition period.

Under the final rules, banks will be required to comply with these composition of capital disclosure requirements from the date of publication of their first set of financial statements relating to a balance sheet date on or after June 30, 2013 (with the exception of the post-Jan. 1, 2018 template). The final rules also provide that banks must publish this disclosure with the same frequency as the publication of their financial statements.

IFRS

International Financial Reporting Standards (IFRS) are a set of standards and interpretations adopted by the International Accounting Standards Board. The SEC is currently considering a potential IFRS adoption process in the United States, which would, in the near term, provide domestic issuers with an alternative accounting method and ultimately could replace U.S. GAAP reporting requirements with IFRS reporting requirements. The intention of this adoption would be to provide the capital markets community with a single set of high-quality, globally accepted accounting standards. The adoption of IFRS for U.S. companies with global operations would allow for streamlined reporting, allow for easier access to foreign capital markets and investments, and facilitate cross-border acquisitions, ventures or spin-offs.

In November 2008, the SEC proposed a roadmap for phasing in mandatory IFRS filings by U.S. public companies. The roadmap is conditional on progress towards milestones that would demonstrate improvements in both the infrastructure of international standard setting and the preparation of the U.S. financial reporting community.

In February 2010, the SEC issued a statement confirming their position that they continue to believe that a single set of high-quality, globally accepted accounting standards would benefit U.S. investors. The SEC continues to support the dual goals of improving financial reporting in the United States and reducing country-by-country disparities in financial reporting. The SEC is developing a work plan to aid in its evaluation of the impact of IFRS on the U.S. securities market.

In May 2011, the SEC published a staff paper, *Exploring a Possible Method of Incorporation*, that presents a possible framework for incorporating IFRS into the U.S. financial reporting system. In the staff paper, the SEC staff elaborates on an approach that combines elements of convergence and endorsement. This approach would establish an endorsement protocol for the FASB to incorporate newly issued or amended IFRS into U.S. GAAP. During a transition period (e.g., five to seven years), differences between IFRS and U.S. GAAP would be potentially eliminated through ongoing FASB standard setting.

In July 2012, the SEC staff released its final report on IFRS. This Final Report will be used by the SEC Commissioners to decide whether and, if so, when and how to incorporate IFRS into the financial reporting system for U.S. companies. The staff has not specifically requested comments on the Final Report. It is expected that the SEC will not make a final decision on IFRS adoption in 2012.

While the SEC decides whether IFRS will be required to be used in the preparation of our consolidated financial statements, a number of countries have mandated the use of IFRS by BNY Mellon's subsidiaries in their statutory reports. Such countries include Belgium, Brazil, the Netherlands, Australia, Hong Kong, Canada and South Korea.

Proposed Update to Internal Controls Integrated Framework

In December 2011, The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued for public comment a proposed update to Internal Control Integrated Framework. The original Framework, issued in 1992, is used by most U.S. public companies and many others to evaluate and report on the effectiveness of their internal control over external financial reporting.

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Since the original Framework was introduced, business has become increasingly global and complex. Regulatory regimes also have expanded, and additional forms of external reporting are emerging. The COSO Board has updated the original Framework to make it more relevant to investors and other stakeholders.

The more significant proposed changes to the original Framework include: applying a principles-based approach, clarifying the role of objective-setting in internal control, reflecting the increased relevance of technology, enhancing governance concepts, expanding the objectives of financial reporting, enhancing consideration of anti-fraud expectations, and considering different business models and organizational structures.

In September 2012, COSO released a draft of its Internal Control Over External Financial Reporting (ICEFR): Compendium of Approaches and Examples (the Compendium). The Compendium provides guidance on applying COSO s Internal Control Integrated Framework to external financial reporting. COSO also released a revised version of its Internal Control Integrated Framework (ICIF) that incorporates changes based on comments received. Comments on the Compendium and the revised ICIF are due by Nov. 20, 2012.

The final document is expected to be issued in the first quarter of 2013.

Government monetary policies and competition

Government monetary policies

The Federal Reserve Board has the primary responsibility for U.S. monetary policy. Its actions have an important influence on the demand for credit and investments and the level of interest rates, and thus on the earnings of BNY Mellon.

Competition

BNY Mellon is subject to intense competition in all aspects and areas of our business. Our Investment Management business competes with asset management firms, hedge funds, investment banking companies, and other financial services companies, including trust banks, brokerage firms, and insurance companies. These firms and companies may be domiciled domestically or internationally. Our Investment Services business competes with

domestic and foreign banks that offer institutional trust, custody and cash management products, as well as a wide range of technologically capable service providers, such as data processing and other firms that rely on automated data transfer services for institutional and retail customers. Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, price, reputation, interest rates, lending limits and customer convenience.

Many of our competitors, with the particular exception of bank and financial holding companies, banks and trust companies, are not subject to regulation as extensive as BNY Mellon, and, as a result, may have a competitive advantage over us and our subsidiaries in certain respects.

In recent years, there has been substantial consolidation among companies in the financial services industry. Many broad-based financial services firms now have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage and asset management, which may enhance their competitive position.

As part of our business strategy, we seek to distinguish ourselves from competitors by the level of service we deliver to our clients. We also believe that technological innovation is an important competitive factor, and, for this reason, have made and continue to make substantial investments in this area. The ability to recover quickly from unexpected events is a competitive factor, and we have devoted significant resources to being able to implement this. See Item 1, Business Competition and Item 1A Risk Factors Competition We are subject to intense competition in all aspects of our business, which could negatively affect our ability to maintain or increase our profitability in our 2011 Annual Report.

Website information

Our website is www.bnymellon.com. We currently make available the following information on our website as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC.

Edgar Filing: Bank of New York Mellon CORP - Form 10-Q

All of our SEC filings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports, SEC Forms 3, 4 and 5 and any proxy statement mailed in connection with the solicitation of proxies;

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Financial statements and footnotes prepared using Extensible Business Reporting Language (XBRL);

Our earnings releases and selected management conference calls and presentations; and

Our Corporate Governance Guidelines, Directors Code of Conduct and the charters of the Audit, Corporate Governance and Nominating, Human Resources and Compensation, Risk, Technology and Corporate Social Responsibility Committees of our Board of Directors.

The contents of the website listed above or any other websites referenced herein are not incorporated into this Quarterly Report on Form 10-Q.

The SEC reports, the Corporate Governance Guidelines, Directors Code of Conduct and committee charters are available in print to any shareholder who requests them. Requests should be sent by email to corpsecretary@bnymellon.com or by mail to the Secretary of The Bank of New York Mellon Corporation, One Wall Street, New York, NY 10286.

Table of Contents**Item 1. Financial Statements****The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Income Statement (unaudited)**

<i>(in millions)</i>	Quarter ended			Year-to-date	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Fee and other revenue					
Investment services fees:					
Asset servicing	\$ 942	\$ 950	\$ 922	\$ 2,835	\$ 2,812
Issuer services	311	275	442	837	1,158
Clearing services	287	309	297	899	881
Treasury services	138	134	133	408	401
Total investment services fees	1,678	1,668	1,794	4,979	5,252
Investment management and performance fees	779	797	729	2,321	2,272
Foreign exchange and other trading revenue	182	180	200	553	620
Distribution and servicing	48	46	43	140	145
Financing-related fees	46	37	40	127	132
Investment and other income	124	48	83	311	309
Total fee revenue	2,857	2,776	2,889	8,431	8,730
Net securities gains (losses) including other-than-temporary impairment	45	70	(13)	167	22
Noncredit-related gains (losses) on securities not expected to be sold (recognized in OCI)	23	20	(11)	55	(29)
Net securities gains (losses)	22	50	(2)	112	51
Total fee and other revenue	2,879	2,826	2,887	8,543	8,781
Operations of consolidated investment management funds					
Investment income	151	152	169	456	562
Interest of investment management fund note holders	104	95	137	309	357
Income (loss) from consolidated investment management funds	47	57	32	147	205
Net interest revenue					
Interest revenue	877	875	928	2,664	2,663
Interest expense	128	141	153	416	459
Net interest revenue	749	734	775	2,248	2,204
Provision for credit losses	(5)	(19)	(22)	(19)	(22)
Net interest revenue after provision for credit losses	754	753	797	2,267	2,226
Noninterest expense					
Staff	1,436	1,415	1,457	4,304	4,344
Professional, legal and other purchased services	292	309	311	900	895
Net occupancy	149	141	151	437	465
Software	127	127	113	373	356
Distribution and servicing	109	103	100	313	320
Furniture and equipment	81	82	80	249	246
Sub-custodian	65	70	80	205	236
Business development	60	71	57	187	186
Other	265	254	224	739	700
Amortization of intangible assets	95	97	106	288	322
Merger and integration, litigation and restructuring charges	26	378	92	513	214
Total noninterest expense	2,705	3,047	2,771	8,508	8,284
Income					
Income before income taxes	975	589	945	2,449	2,928
Provision for income taxes	225	93	281	572	837
Net income	750	496	664	1,877	2,091
Net (income) loss attributable to noncontrolling interests (includes \$(25), \$(29), \$(13), \$(65) and \$(78) related to consolidated investment management funds, respectively)	(25)	(30)	(13)	(67)	(80)
Net income applicable to shareholders of The Bank of New York Mellon Corporation	725	466	651	1,810	2,011
Preferred stock dividends	(5)	-	-	(5)	-
Net income applicable to common shareholders of The Bank of New York Mellon Corporation	\$ 720	\$ 466	\$ 651	\$ 1,805	\$ 2,011

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Table of Contents**The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Income Statement (unaudited)** continued**Reconciliation of net income to the net income applicable to the****common shareholders of The Bank of New York Mellon Corporation**

	Quarter ended			Year-to-date	
<i>(in millions)</i>	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Net income	\$ 750	\$ 496	\$ 664	\$ 1,877	\$ 2,091
Net (income) loss attributable to noncontrolling interests	(25)	(30)	(13)	(67)	(80)
Net income applicable to shareholders of The Bank of New York Mellon Corporation	725	466	651	1,810	2,011
Preferred stock dividends	(5)	-	-	(5)	-
Net income applicable to the common shareholders of The Bank of New York Mellon Corporation	720	466	651	1,805	2,011
Less: Earnings allocated to participating securities	11	7	7	26	21
Change in the excess of redeemable value over the fair value of noncontrolling interests	-	1	4	(5)	10
Net income applicable to the common shareholders of The Bank of New York Mellon Corporation after required adjustments for the calculation of basic and diluted earnings per common share	\$ 709	\$ 458	\$ 640	\$ 1,784	\$ 1,980

Average common shares and equivalents outstanding**of The Bank of New York Mellon Corporation**

	Quarter ended			Year-to-date	
<i>(in thousands)</i>	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Basic	1,169,674	1,181,350	1,214,126	1,181,614	1,226,132
Common stock equivalents	11,222	9,414	7,395	10,031	9,096
Less: Participating securities	(9,362)	(7,779)	(5,994)	(8,336)	(6,186)
Diluted	1,171,534	1,182,985	1,215,527	1,183,309	1,229,042
Anti-dilutive securities (a)	90,785	94,650	94,432	91,862	86,986

Earnings per share applicable to the common shareholders**of The Bank of New York Mellon Corporation (b)**

	Quarter ended			Year-to-date	
<i>(in dollars)</i>	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Basic	\$ 0.61	\$ 0.39	\$ 0.53	\$ 1.51	\$ 1.61
Diluted	\$ 0.61	\$ 0.39	\$ 0.53	\$ 1.51	\$ 1.61

(a) Represents stock options, restricted stock, restricted stock units and participating securities outstanding but not included in the computation of diluted average common shares because their effect would be anti-dilutive.

(b) Basic and diluted earnings per share under the two-class method are determined on the net income applicable to the common shareholders of The Bank of New York Mellon Corporation reported on the income statement less earnings allocated to participating securities, and the change in the excess of redeemable value over the fair value of noncontrolling interests.

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Comprehensive Income Statement (unaudited)**

<i>(in millions)</i>	Quarter ended			Year-to-date	
	Sept. 30, 2012	June 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Net income	\$ 750	\$ 496	\$ 664	\$ 1,877	\$ 2,091
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments arising during the period	169	(265)	(384)	76	(25)
Unrealized gain (loss) on assets available-for-sale:					
Unrealized gain (loss) arising during the period	638	197	30	1,072	324
Reclassification adjustment	(15)	(35)	2	(74)	(28)
Total unrealized gain (loss) on assets available-for-sale	623	162	32	998	296
Defined benefit plans:					
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	28	24	20	79	54
Total defined benefit plans	28	24	20	79	54
Net unrealized gain (loss) on cash flow hedges:					
Unrealized hedge gain (loss) arising during the period	1	6	29	7	28
Reclassification adjustment	-	(6)	1	(3)	2
Total unrealized gain (loss) on cash flow hedges	1	-	30	4	30
Total other comprehensive income (loss), net of tax (a)	821	(79)	(302)	1,157	355
Net (income) loss attributable to noncontrolling interests	(25)	(30)	(13)	(67)	(80)
Other comprehensive (income) loss attributable to noncontrolling interests	(12)	28	49	(1)	(4)
Net comprehensive income (loss)	\$ 1,534	\$ 415	\$ 398	\$ 2,966	\$ 2,362

(a) Other comprehensive income (loss) attributable to The Bank of New York Mellon Corporation shareholders was \$809 million for the quarter ended Sept. 30, 2012, \$(51) million for the quarter ended June 30, 2012, \$(253) million for the quarter ended Sept. 30, 2011, \$1,156 million for the nine months ended Sept. 30, 2012 and \$351 million for the nine months ended Sept. 30, 2011.

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Balance Sheet (unaudited)**

	Sept. 30, 2012	Dec. 31, 2011
<i>(dollar amounts in millions, except per share amounts)</i>		
Assets		
Cash and due from:		
Banks	\$ 4,991	\$ 4,175
Interest-bearing deposits with the Federal Reserve and other central banks	73,118	90,243
Interest-bearing deposits with banks	40,578	36,321
Federal funds sold and securities purchased under resale agreements	5,753	4,510
Securities:		
Held-to-maturity (fair value of \$8,893 and \$3,540)	8,702	3,521
Available-for-sale	95,148	78,467
Total securities	103,850	81,988
Trading assets	9,190	7,861
Loans	45,889	43,979
Allowance for loan losses	(339)	(394)
Net loans	45,550	43,585
Premises and equipment	1,690	1,681
Accrued interest receivable	545	660
Goodwill	17,984	17,904
Intangible assets	4,882	5,152
Other assets (includes \$1,123 and \$1,848, at fair value)	20,444	19,839
Subtotal assets of operations	328,575	313,919
Assets of consolidated investment management funds, at fair value:		
Trading assets	10,821	10,751
Other assets	548	596
Subtotal assets of consolidated investment management funds, at fair value	11,369	11,347
Total assets	\$ 339,944	\$ 325,266
Liabilities		
Deposits:		
Noninterest-bearing (principally U.S. offices)	\$ 78,790	\$ 95,335
Interest-bearing deposits in U.S. offices	44,843	41,231
Interest-bearing deposits in Non-U.S. offices	99,316	82,528
Total deposits	222,949	219,094
Federal funds purchased and securities sold under repurchase agreements	12,450	6,267
Trading liabilities	7,754	8,071
Payables to customers and broker-dealers	13,675	12,671
Commercial paper	1,278	10
Other borrowed funds	1,139	2,174
Accrued taxes and other expenses	6,590	6,235
Other liabilities (includes allowance for lending related commitments of \$117 and \$103, also includes \$810 and \$382, at fair value)	7,408	6,525
Long-term debt (includes \$345 and \$326, at fair value)	19,516	19,933
Subtotal liabilities of operations	292,759	280,980
Liabilities of consolidated investment management funds, at fair value:		
Trading liabilities	10,018	10,053
Other liabilities	28	32
Subtotal liabilities of consolidated investment management funds, at fair value	10,046	10,085
Total liabilities	302,805	291,065
Temporary equity		
Redeemable noncontrolling interests	140	114
Permanent equity		
Preferred stock par value \$0.01 per share; authorized 100,000,000 preferred shares; issued 10,501 and - shares	1,036	-
Common stock par value \$0.01 per share; authorized 3,500,000,000 common shares; issued 1,252,278,284 and 1,249,061,305 shares	13	12
Additional paid-in capital	23,429	23,185

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Retained earnings	14,153	12,812
Accumulated other comprehensive loss, net of tax	(471)	(1,627)
Less: Treasury stock of 83,671,325 and 39,386,698 common shares, at cost	(1,942)	(965)
Total The Bank of New York Mellon Corporation shareholders' equity	36,218	33,417
Non-redeemable noncontrolling interests of consolidated investment management funds	781	670
Total permanent equity	36,999	34,087
Total liabilities, temporary equity and permanent equity	\$ 339,944	\$ 325,266
<i>See accompanying Notes to Consolidated Financial Statements.</i>		

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Table of Contents**The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Statement of Cash Flows (unaudited)**

<i>(in millions)</i>	Nine months ended Sept. 30,	
	2012	2011
Operating activities		
Net income	\$ 1,877	\$ 2,091
Net (income) attributable to noncontrolling interests	(67)	(80)
Net income applicable to shareholders of The Bank of New York Mellon Corporation	1,810	2,011
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for credit losses	(19)	(22)
Depreciation and amortization	911	557
Deferred tax (benefit) expense	(87)	174
Net securities (gains) and venture capital (income)	(117)	(66)
Change in trading activities	(1,646)	(2,441)
Change in accruals and other, net	421	(896)
Net cash provided by (used for) operating activities	1,273	(683)
Investing activities		
Change in interest-bearing deposits with banks	(4,324)	(2,568)
Change in interest-bearing deposits with the Federal Reserve and other central banks	17,125	(49,213)
Purchases of securities held-to-maturity	(3,477)	(1,224)
Paydowns of securities held-to-maturity	490	157
Maturities of securities held-to-maturity	549	776
Purchases of securities available-for-sale	(37,158)	(26,897)
Sales of securities available-for-sale	6,180	6,959
Paydowns of securities available-for-sale	7,253	6,281
Maturities of securities available-for-sale	6,011	4,649
Change in loans	(1,878)	(7,993)
Sales of loans and other real estate	176	430
Change in federal funds sold and securities purchased under resale agreements	(1,243)	527
Change in seed capital investments	64	75
Purchases of premises and equipment/capitalized software	(453)	(580)
Proceeds from the sale of premises and equipment	5	13
Acquisitions, net cash	(7)	(37)
Other, net	312	(487)
Net cash (used for) investing activities	(10,375)	(69,132)
Financing activities		
Change in deposits	3,327	65,617
Change in federal funds purchased and securities sold under repurchase agreements	6,183	1,166
Change in payables to customers and broker-dealers	1,004	3,135
Change in other borrowed funds	(1,013)	1,829
Change in commercial paper	1,268	34
Net proceeds from the issuance of long-term debt	1,264	3,793
Repayments of long-term debt	(1,768)	(1,237)
Proceeds from the exercise of stock options	9	17
Issuance of common stock	19	18
Issuance of preferred stock	1,036	-
Treasury stock acquired	(976)	(802)
Common cash dividends paid	(469)	(435)
Preferred cash dividends paid	(5)	-
Other, net	27	(10)
Net cash provided by financing activities	9,906	73,125
Effect of exchange rate changes on cash	12	(294)
Change in cash and due from banks		
Change in cash and due from banks	816	3,016
Cash and due from banks at beginning of period	4,175	3,675
Cash and due from banks at end of period	\$ 4,991	\$ 6,691

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Supplemental disclosures

Interest paid	\$	405	\$	391
Income taxes paid		584		347
Income taxes refunded		7		230

See accompanying Notes to Consolidated Financial Statements.

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Table of Contents**The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Statement of Changes in Equity (unaudited)**

	The Bank of New York Mellon Corporation shareholders						Non-redeemable		Total permanent equity	Redeemable non-controlling interests/ temporary equity
	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net of tax	Treasury stock	interests of consolidated investment management funds	noncontrolling		
<i>(in millions, except per share amounts)</i>										
Balance at Dec. 31, 2011	\$ -	\$ 12	\$ 23,185	\$ 12,812	\$ (1,627)	\$ (965)	\$ 670	\$ 34,087 ^(a)	\$ 114	
Shares issued to shareholders of noncontrolling interests	-	-	-	-	-	-	-	-	33	
Redemption of subsidiary shares from noncontrolling interests	-	-	-	-	-	-	-	-	(4)	
Other net changes in noncontrolling interests	-	-	(2)	5	-	-	47	50	(7)	
Net income	-	-	-	1,810	-	-	65	1,875	2	
Other comprehensive income	-	-	-	-	1,156	-	(1)	1,155	2	
Common stock dividends at \$0.39 per share	-	-	-	(469)	-	-	-	(469)	-	
Preferred stock dividends	-	-	-	(5)	-	-	-	(5)	-	
Repurchase of common stock	-	-	-	-	-	(976)	-	(976)	-	
Common stock issued under:										
Employee benefit plans	-	-	21	-	-	-	-	21	-	
Direct stock purchase and dividend reinvestment plan	-	-	15	-	-	-	-	15	-	
Preferred stock issued	1,036	-	-	-	-	-	-	1,036	-	
Stock awards and options exercised	-	1	210	-	-	(1)	-	210	-	
Balance at Sept. 30, 2012	\$ 1,036	\$ 13	\$ 23,429	\$ 14,153	\$ (471)	\$ (1,942)	\$ 781	\$ 36,999 ^(a)	\$ 140	

^(a) Includes total The Bank of New York Mellon Corporation common shareholders equity of \$33,417 million at Dec. 31, 2011 and \$35,182 million at Sept. 30, 2012.

See accompanying Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

Note 1 Basis of presentation

Basis of presentation

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

The accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods have been made. These financial statements should be read in conjunction with BNY Mellon s Annual Report on Form 10-K for the year ended Dec. 31, 2011. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with current period presentation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates based upon assumptions about future economic and market conditions which affect reported amounts and related disclosures in our financial statements. Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Amounts subject to estimates are items such as the allowance for loan losses and lending-related commitments, goodwill and intangible assets, pension accounting, the fair value of financial instruments and other-than-temporary impairments. Among other effects, such changes in estimates could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending-related commitments as well as increased pension and post-retirement expense.

Note 2 Accounting changes and new accounting guidance

ASU 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU intends to improve consistency in the application of fair value measurement and disclosure requirements in U.S. GAAP and IFRS. The ASU clarifies the application of existing fair value measurement and disclosure requirements including 1) the application of concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of non-financial assets and are not relevant when measuring the fair value of financial assets or any liabilities, 2) measuring the fair value of an instrument classified in shareholders equity from the perspective of a market participant that holds that instrument as an asset, and 3) disclosures about quantitative information regarding the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. This ASU also requires the disclosure of the level of the fair value hierarchy for financial instruments not reported at fair value on the balance sheet. This ASU did not impact our results of operations. See Note 15 Fair value measurement for the disclosures.

ASU 2011-05 Presentation of Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. This ASU increased the prominence of other comprehensive income in the financial statements. The guidance eliminated the option to present comprehensive income and its components in the Statement of Changes in Shareholders Equity, and requires the disclosure of comprehensive income and its components in one of two ways: a single continuous statement or in two separate but consecutive statements. The single continuous statement presents other comprehensive income and its components on the income statement. Under the two-statement approach, the first statement would include components of net income and the second statement would include other comprehensive

Table of Contents**Notes to Consolidated Financial Statements** (continued)

income and its components. The ASU did not change the components of other comprehensive income. This ASU did not impact our results of operations. BNY Mellon adopted the two-statement approach. See the Consolidated Comprehensive Income Statement and Note 14 Other comprehensive income for the disclosures.

ASU 2011-08 - Testing Goodwill for Impairment

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, which amended the guidance in ASC 350 for goodwill impairment. This ASU permits entities performing goodwill impairment tests the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., Step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The ASU did not change how goodwill was calculated or assigned to reporting units, or the annual goodwill impairment testing requirement. In addition, the ASU does not amend the requirement to perform interim goodwill impairment tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider. The amendments were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after Dec. 15, 2011.

Note 3 Acquisitions and dispositions

We sometimes structure our acquisitions with both an initial payment and later contingent payments tied to post-closing revenue or income growth. For acquisitions completed prior to Jan. 1, 2009, we record the fair value of contingent payments as an additional cost of the entity acquired in the period that the payment becomes probable. For acquisitions completed after Jan. 1, 2009, subsequent changes in the fair value of a contingent consideration liability will be recorded through the income statement. Contingent payments totaled \$3 million in the third quarter of 2012 and \$7 million in the first nine months of 2012.

At Sept. 30, 2012, we were potentially obligated to pay additional consideration which, using reasonable assumptions for the performance of the acquired companies and joint ventures based on contractual agreements, could range from \$3 million to \$33 million over the next two years.

Acquisitions in 2011

On July 1, 2011, BNY Mellon acquired the wealth management operations of Chicago-based Talon Asset Management (Talon) for cash of \$11 million. We are obligated to pay, upon occurrence of certain events, contingent additional consideration of \$5 million, which was recorded as goodwill at the acquisition date. Talon manages assets of wealthy families and institutions. Goodwill related to this acquisition, including contingent additional consideration, is included in our Investment Management business and totaled \$10 million and is deductible for tax purposes. Customer relationship intangible assets related to this acquisition are included in our Investment Management business, with a life of 20 years, and totaled \$6 million.

On Nov. 30, 2011, BNY Mellon acquired Penson Financial Services Australia Pty Ltd, a clearing firm located in Australia, in a \$33 million share purchase transaction. Goodwill related to this acquisition is included in our Investment Services business and totaled \$10 million and is non-tax deductible. Customer relationship intangible assets related to this acquisition are included in our Investment Services business, with a life of nine years, and totaled \$6 million.

Dispositions in 2011

On Dec. 31, 2011, BNY Mellon sold its Shareowner Services business. The sales price of \$550 million resulted in a pre-tax gain of \$98 million. We recorded an immaterial after-tax gain primarily due to the write-off of non-tax deductible goodwill associated with the business.

Table of Contents**Notes to Consolidated Financial Statements** (continued)**Note 4 Securities**

The following tables present the amortized cost, the gross unrealized gains and losses and the fair value of securities at Sept. 30, 2012 and Dec. 31, 2011.

Securities at Sept. 30, 2012

(in millions)	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
Available-for-sale:				
U.S. Treasury	\$ 19,012	\$ 553	\$ -	\$ 19,565
U.S. Government agencies	1,055	31	-	1,086
State and political subdivisions	6,044	130	33	6,141
Agency RMBS	34,070	1,011	7	35,074
Alt-A RMBS	261	40	17	284
Prime RMBS	774	8	22	760
Subprime RMBS	530	4	99	435
Other RMBS	2,850	39	138	2,751
Commercial MBS	3,138	161	58	3,241
Asset-backed CLOs	1,200	4	15	1,189
Other asset-backed securities	1,879	15	2	1,892
Foreign covered bonds	3,760	116	-	3,876
Corporate bonds	1,786	79	2	1,863
Other debt securities	11,830	328	2	12,156 ^(a)
Equity securities	24	3	-	27
Money market funds	1,608	-	-	1,608
Alt-A RMBS ^(b)	1,625	393	6	2,012
Prime RMBS ^(b)	885	180	2	1,063
Subprime RMBS ^(b)	113	12	-	125
Total securities available-for-sale	92,444	3,107	403	95,148
Held-to-maturity:				
U.S. Treasury	1,012	64	-	1,076
State and political subdivisions	67	2	-	69
Agency RMBS	6,228	160	-	6,388
Alt-A RMBS	118	8	9	117
Prime RMBS	103	1	1	103
Subprime RMBS	27	-	2	25
Other RMBS	1,118	40	70	1,088
Commercial MBS	26	-	2	24
Other securities	3	-	-	3
Total securities held-to-maturity	8,702	275	84	8,893
Total securities	\$ 101,146	\$ 3,382	\$ 487	\$ 104,041

^(a) Includes \$9.8 billion, at fair value, of government-sponsored and guaranteed entities, and sovereign debt.

^(b) Previously included in the Grantor Trust. The Grantor Trust was dissolved in the first quarter of 2011.

Securities at Dec. 31, 2011

(in millions)	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
Available-for-sale:				
U.S. Treasury	\$ 16,814	\$ 514	\$ 2	\$ 17,326
U.S. Government agencies	932	26	-	958
State and political subdivisions	2,724	62	47	2,739
Agency RMBS	26,232	575	11	26,796
Alt-A RMBS	306	9	42	273
Prime RMBS	916	1	102	815

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Subprime RMBS	606	2	190	418
Other RMBS	1,133	-	230	903
Commercial MBS	3,327	89	77	3,339
Asset-backed CLOs	1,480	1	37	1,444
Other asset-backed securities	527	8	3	532
Foreign covered bonds	2,410	18	3	2,425
Corporate bonds	1,696	47	5	1,738
Other debt securities	14,320	292	33	14,579 (a)
Equity securities	26	4	-	30
Money market funds	973	-	-	973
Alt-A RMBS (b)	1,790	157	68	1,879
Prime RMBS (b)	1,090	106	21	1,175
Subprime RMBS (b)	122	6	3	125
Total securities available-for-sale	77,424	1,917	874	78,467
Held-to-maturity:				
U.S. Treasury	813	53	-	866
State and political subdivisions	100	3	-	103
Agency RMBS	658	39	-	697
Alt-A RMBS	153	4	19	138
Prime RMBS	121	-	10	111
Subprime RMBS	28	-	3	25
Other RMBS	1,617	47	93	1,571
Commercial MBS	28	-	2	26
Other securities	3	-	-	3
Total securities held-to-maturity	3,521	146	127	3,540
Total securities	\$ 80,945	\$ 2,063	\$ 1,001	\$ 82,007

(a) Includes \$13.1 billion, at fair value, of government-sponsored and guaranteed entities, and sovereign debt.

(b) Previously included in the Grantor Trust. The Grantor Trust was dissolved in the first quarter of 2011.

Net securities gains (losses)

(in millions)	3Q12	2Q12	3Q11	YTD12	YTD11
Realized gross gains	\$ 32	\$ 122	\$ 6	\$ 216	\$ 92
Realized gross losses	(4)	(5)	(2)	(9)	(22)
Recognized gross impairments	(6)	(67)	(6)	(95)	(19)
Total net securities gains (losses)	\$ 22	\$ 50	\$ (2)	\$ 112	\$ 51
<i>Temporarily impaired securities</i>					

At Sept. 30, 2012, substantially all of the unrealized losses on the investment securities portfolio were attributable to credit spreads widening since purchase, and interest rate movements. We do not intend to sell these securities and it is not more likely than not that we will have to sell.

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Notes to Consolidated Financial Statements (continued)

The following tables show the aggregate related fair value of investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or more.

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Temporarily impaired securities at Sept. 30, 2012 (in millions)						
Available-for-sale:						
State and political subdivisions	\$ 389	\$ 4	\$ 170	\$ 29	\$ 559	\$ 33
Agency RMBS	830	7	108	-	938	7
Alt-A RMBS	26	13	45	4	71	17
Prime RMBS	-	-	320	22	320	22
Subprime RMBS	26	7	391	92	417	99
Other RMBS	39	31	679	107	718	138
Commercial MBS	-	-	379	58	379	58
Asset-backed CLOs	367	2	346	13	713	15
Other asset-backed securities	541	1	8	1	549	2
Corporate bonds	153	2	-	-	153	2
Other debt securities	2,423	2	5	-	2,428	2
Alt-A RMBS (a)	29	1	62	5	91	6
Prime RMBS (a)	28	1	21	1	49	2
Total securities available-for-sale	\$ 4,851	\$ 71	\$ 2,534	\$ 332	\$ 7,385	\$ 403
Held-to-maturity:						
Alt-A RMBS	\$ -	\$ -	\$ 25	\$ 9	\$ 25	\$ 9
Prime RMBS	-	-	59	1	59	1
Subprime RMBS	-	-	25	2	25	2
Other RMBS	-	-	354	70	354	70
Commercial MBS	-	-	24	2	24	2
Total securities held-to-maturity	\$ -	\$ -	\$ 487	\$ 84	\$ 487	\$ 84
Total temporarily impaired securities	\$ 4,851	\$ 71	\$ 3,021	\$ 416	\$ 7,872	\$ 487

(a) Previously included in the Grantor Trust. The Grantor Trust was dissolved in the first quarter of 2011.

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Temporarily impaired securities at Dec. 31, 2011 (in millions)						
Available-for-sale:						
U.S. Treasury	\$ 118	\$ 2	\$ -	\$ -	\$ 118	\$ 2
State and political subdivisions	483	2	157	45	640	47
Agency RMBS	3,844	10	140	1	3,984	11
Alt-A RMBS	132	16	69	26	201	42
Prime RMBS	324	25	447	77	771	102
Subprime RMBS	-	-	400	190	400	190
Other RMBS	5	4	895	226	900	230
Commercial MBS	340	2	495	75	835	77
Asset-backed CLOs	1,143	26	211	11	1,354	37
Other asset-backed securities	60	1	18	2	78	3
Foreign covered bonds	368	1	406	2	774	3
Corporate bonds	254	5	-	-	254	5
Other debt securities	2,613	7	54	26	2,667	33
Alt-A RMBS (a)	595	53	29	15	624	68
Prime RMBS (a)	437	21	-	-	437	21
Subprime RMBS (a)	50	3	-	-	50	3

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Total securities available-for-sale	\$ 10,766	\$ 178	\$ 3,321	\$ 696	\$ 14,087	\$ 874
Held-to-maturity:						
Alt-A RMBS	\$ 69	\$ 3	\$ 42	\$ 16	\$ 111	\$ 19
Prime RMBS	-	-	56	10	56	10
Subprime RMBS	-	-	25	3	25	3
Other RMBS	107	2	573	91	680	93
Commercial MBS	-	-	26	2	26	2
Total securities held-to-maturity	\$ 176	\$ 5	\$ 722	\$ 122	\$ 898	\$ 127
Total temporarily impaired securities	\$ 10,942	\$ 183	\$ 4,043	\$ 818	\$ 14,985	\$ 1,001

(a) Previously included in the Grantor Trust. The Grantor Trust was dissolved in the first quarter of 2011.

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Notes to Consolidated Financial Statements (continued)

The following table shows the maturity distribution by carrying amount and yield (on a tax equivalent basis) of our investment securities portfolio at Sept. 30, 2012.

Maturity distribution and yield on investment securities

	U.S. Treasury		U.S. Government agency		State and political subdivisions		Other bonds, notes and debentures		Mortgage/asset-backed and equity securities		Total
	Amount	Yield (a)	Amount	Yield(a)	Amount	Yield (a)	Amount	Yield (a)	Amount	Yield (a)	
<i>(dollars in millions)</i>											
Securities available-for-sale:											
One year or less	\$ 174	0.74%	\$ 50	1.26%	\$ 138	1.16%	\$ 3,717	1.09%	\$ -	-%	\$ 4,079
Over 1 through 5 years	14,241	0.77	961	1.63	2,777	1.67	11,328	1.32	-	-	29,307
Over 5 through 10 years	1,636	3.06	75	2.06	2,687	3.07	2,749	2.73	-	-	7,147
Over 10 years	3,514	3.12	-	-	539	3.94	101	6.91	-	-	4,154
Mortgage-backed securities	-	-	-	-	-	-	-	-	45,745	2.87	45,745
Asset-backed securities	-	-	-	-	-	-	-	-	3,081	1.42	3,081
Equity securities (b)	-	-	-	-	-	-	-	-	1,635	-	1,635
Total	\$ 19,565	1.38%	\$ 1,086	1.65%	\$ 6,141	2.47%	\$ 17,895	1.52%	\$ 50,461	2.69%	\$ 95,148
Securities held-to-maturity:											
One year or less	\$ -	-%	\$ -	-%	\$ 1	6.54%	\$ 3	0.24%	\$ -	-%	\$ 4
Over 1 through 5 years	711	1.49	-	-	-	-	-	-	-	-	711
Over 5 through 10 years	365	2.65	-	-	25	6.67	-	-	-	-	390
Over 10 years	-	-	-	-	43	6.65	-	-	-	-	43
Mortgage-backed securities	-	-	-	-	-	-	-	-	7,745	2.94	7,745
Total	\$ 1,076	1.89%	\$ -	-%	\$ 69	6.66%	\$ 3	0.24%	\$ 7,745	2.94%	\$ 8,893

(a) Yields are based upon the amortized cost of securities.

(b) Includes money market funds.

Other-than-temporary impairment

We routinely conduct periodic reviews of all securities using economic models to identify and evaluate each investment security to determine whether OTTI has occurred. Various inputs to the economic models are used to determine if an unrealized loss on securities is other-than-temporary. For example, the most significant inputs related to non-agency RMBS are:

Default rate the number of mortgage loans expected to go into default over the life of the transaction, which is driven by the roll rate of loans in each performance bucket that will ultimately migrate to default; and

Severity the loss expected to be realized when a loan defaults.

To determine if an unrealized loss is other-than-temporary, we project total estimated defaults of the underlying assets (mortgages) and multiply that calculated amount by an estimate of realizable value upon sale of these assets in the marketplace

(severity) in order to determine the projected collateral loss. We also evaluate the current credit enhancement underlying the bond to determine the impact on cash flows. If we determine that a given security will be subject to a write-down or loss, we record the expected credit loss as a charge to earnings.

In addition, we have estimated the expected loss by taking into account observed performance of the underlying securities, industry studies, market forecasts, as well as our view of the economic outlook affecting collateral.

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The table below shows the projected weighted-average default rates and loss severities for the 2007, 2006 and late 2005 non-agency RMBS at Sept. 30, 2012 and Dec. 31, 2011.

Projected weighted-average default rates and severities

	Sept. 30, 2012		Dec. 31, 2011	
	Default Rate	Severity	Default Rate	Severity
Alt-A	44%	57%	44%	57%
Subprime	62%	72%	63%	73%
Prime	24%	43%	25%	43%

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Table of Contents**Notes to Consolidated Financial Statements** (continued)

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

Net securities gains (losses) (in millions)	3Q12	2Q12	3Q11	Year-to-date	
				2012	2011
Sovereign debt	\$ 15	\$ 61	\$ -	\$ 83	\$ -
U.S. Treasury	-	44	3	82	44
Corporate bonds	10	7	-	19	-
FDIC-insured debt	-	-	-	10	-
Prime RMBS	(1)	(1)	-	(3)	9
Alt-A RMBS	(2)	(3)	(1)	(15)	3
Trust preferred	-	(18)	-	(18)	-
Subprime RMBS	-	(23)	(1)	(26)	(13)
European floating rate notes	(6)	(22)	(4)	(29)	(19)
Agency RMBS	-	-	-	-	8
Other	6	5	1	9	19
Net securities gains (losses)	\$ 22	\$ 50	\$ (2)	\$ 112	\$ 51

The following table reflects investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. The additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred. The deductions represent credit losses on securities that have been sold, are required to be sold or it is our intention to sell.

Debt securities credit loss roll forward

(in millions)	3Q12	3Q11
Beginning balance as of June 30	\$ 333	\$ 187
Add: Initial OTTI credit losses	2	3
Subsequent OTTI credit losses	4	3
Less: Realized losses for securities sold / consolidated	77	-
Ending balance as of September 30	\$ 262	\$ 193

Debt securities credit loss roll forward

(in millions)	Year-to-date	
	2012	2011
Beginning balance as of Jan. 1	\$ 253	\$ 182
Add: Initial OTTI credit losses	52	12
Subsequent OTTI credit losses	42	7
Less: Realized losses for securities sold / consolidated	85	8
Ending balance as of September 30	\$ 262	\$ 193

Note 5 Loans and asset quality*Loans*

The table below provides the details of our loan distribution and industry concentrations of credit risk at Sept. 30, 2012 and Dec. 31, 2011.

Loans

<i>(in millions)</i>	Sept. 30, 2012	Dec. 31, 2011
Domestic:		
Financial institutions	\$ 4,442	\$ 4,606
Commercial	787	752
Wealth management loans and mortgages	8,215	7,342
Commercial real estate	1,680	1,449
Lease financings <i>(a)</i>	1,444	1,558
Other residential mortgages	1,701	1,923
Overdrafts	2,070	2,958
Other	685	623
Margin loans	13,036	12,760
Total domestic	34,060	33,971
Foreign:		
Financial institutions	6,606	6,538
Commercial	366	528
Commercial real estate	37	-
Lease financings <i>(a)</i>	1,033	1,051
Other (primarily overdrafts)	3,787	1,891
Total foreign	11,829	10,008
Total loans	\$ 45,889	\$ 43,979

(a) Net of unearned income on domestic and foreign lease financings of \$1,198 million at Sept. 30, 2012 and \$1,343 million at Dec. 31, 2011.

Our loan portfolio is comprised of three portfolio segments: commercial, lease financings and mortgages. We manage our portfolio at the class level which is comprised of six classes of financing receivables: commercial, commercial real estate, financial institutions, lease financings, wealth management loans and mortgages, and other residential mortgages. The following tables are presented for each class of financing receivable, and provide additional information about our credit risks and the adequacy of our allowance for credit losses.

Table of Contents**Notes to Consolidated Financial Statements** (continued)*Allowance for credit losses*

Transactions in the allowance for credit losses are summarized as follows:

Allowance for credit losses activity for the quarter ended Sept. 30, 2012

<i>(in millions)</i>	Commercial			Lease financings	Wealth management	Other residential mortgages	All Other (a)	Foreign	Total
	Commercial	real estate	Financial institutions		loans and mortgages				
Beginning balance	\$ 103	\$ 33	\$ 39	\$ 56	\$ 26	\$ 153	\$ -	\$ 57	\$ 467
Charge-offs	(1)	-	(4)	-	-	(3)	-	-	(8)
Recoveries	-	-	-	-	-	2	-	-	2
Net (charge-offs) recoveries	(1)	-	(4)	-	-	(1)	-	-	(6)
Provision	(4)	2	2	(1)	7	(11)	2	(2)	(5)
Ending balance	\$ 98	\$ 35	\$ 37	\$ 55	\$ 33	\$ 141	\$ 2	\$ 55	\$ 456
Allowance for:									
Loans losses	\$ 32	\$ 26	\$ 11	\$ 55	\$ 28	\$ 141	\$ 1	\$ 45	\$ 339
Unfunded commitments	66	9	26	-	5	-	1	10	117
Individually evaluated for impairment:									
Loan balance	\$ 60	\$ 28	\$ 3	\$ -	\$ 38	\$ -	\$ -	\$ 9	\$ 138
Allowance for loan losses	12	5	-	-	7	-	-	4	28
Collectively evaluated for impairment:									
Loan balance	\$ 727	\$ 1,652	\$ 4,439	\$ 1,444	\$ 8,177	\$ 1,701	\$ 15,791 (a)	\$ 11,820	\$ 45,751
Allowance for loan losses	20	21	11	55	21	141	1	41	311

(a) Includes \$2,070 million of domestic overdrafts, \$13,036 million of margin loans and \$685 million of other loans at Sept. 30, 2012.

Allowance for credit losses activity for the quarter ended June 30, 2012

<i>(in millions)</i>	Commercial			Lease financings	Wealth management	Other residential mortgages	All Other (a)	Foreign	Total
	Commercial	real estate	Financial institutions		loans and mortgages				
Beginning balance	\$ 97	\$ 33	\$ 53	\$ 62	\$ 34	\$ 165	\$ -	\$ 50	\$ 494
Charge-offs	-	-	(4)	-	-	(7)	-	-	(11)
Recoveries	1	-	-	-	-	2	-	-	3
Net (charge-offs) recoveries	1	-	(4)	-	-	(5)	-	-	(8)
Provision	5	-	(10)	(6)	(8)	(7)	-	7	(19)
Ending balance	\$ 103	\$ 33	\$ 39	\$ 56	\$ 26	\$ 153	\$ -	\$ 57	\$ 467
Allowance for:									
Loans losses	\$ 42	\$ 23	\$ 18	\$ 56	\$ 21	\$ 153	\$ -	\$ 49	\$ 362
Unfunded commitments	61	10	21	-	5	-	-	8	105
Individually evaluated for impairment:									
Loan balance	\$ 62	\$ 29	\$ 3	\$ -	\$ 31	\$ -	\$ -	\$ 9	\$ 134
Allowance for loan losses	16	6	-	-	7	-	-	5	34
Collectively evaluated for impairment:									
Loan balance	\$ 752	\$ 1,566	\$ 4,832	\$ 1,505	\$ 7,885	\$ 1,773	\$ 16,811 (a)	\$ 10,173	\$ 45,297
Allowance for loan losses	26	17	18	56	14	153	-	44	328

(a) Includes \$2,750 million of domestic overdrafts, \$13,462 million of margin loans and \$599 million of other loans at June 30, 2012.

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Notes to Consolidated Financial Statements (continued)

Allowance for credit losses activity for the quarter ended Sept. 30, 2011

<i>(in millions)</i>	Commercial		real estate	Financial institutions	Lease financings	Wealth management loans and mortgages	Other residential mortgages	All Other (a)	Foreign	Total
	Commercial	Commercial								
Beginning balance	\$ 96	\$ 27	\$ 24	\$ 91	\$ 31	\$ 200	\$ -	\$ 66	\$ 535	
Charge-offs	(1)	-	(1)	-	-	(15)	-	-	(17)	
Recoveries	-	-	1	-	-	1	-	-	2	
Net (charge-offs) recoveries	(1)	-	-	-	-	(14)	-	-	(15)	
Provision	3	4	6	-	-	(24)	-	(11)	(22)	
Ending balance	\$ 98	\$ 31	\$ 30	\$ 91	\$ 31	\$ 162	\$ -			