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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2012

or

[   ] Transition Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Commission File No. 000-52710

THE BANK OF NEW YORK MELLON CORPORATION

(Exact name of registrant as specified in its charter)

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

One Wall Street

New York, New York 10286

(Address of principal executive offices)(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ü No ____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ü No ____

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

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

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

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

Class	Outstanding as of June 30, 2012
Common Stock, $0.01 par value	1,181,297,952

THE BANK OF NEW YORK MELLON CORPORATION

Second Quarter 2012 Form 10-Q

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The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited)

(dollar amounts in millions, except per common share amounts and unless otherwise noted)	Quarter ended **June 30, 2012**	March 31, 2012	June 30, 2011	Year-to-date **June 30, 2012**	June 30, 2011
Results applicable to common shareholders of The Bank of New York Mellon Corporation:					
Net income	**$ 466**	$ 619	$ 735	**$ 1,085**	$ 1,360
Basic EPS	**0.39**	0.52	0.59	**0.91**	1.09
Diluted EPS	**0.39**	0.52	0.59	**0.90**	1.08
Fee and other revenue	**$ 2,826**	$ 2,838	$ 3,056	**$ 5,664**	$ 5,894
Income from consolidated investment management funds	**57**	43	63	**100**	173
Net interest revenue	**734**	765	731	**1,499**	1,429
Total revenue	**$ 3,617**	$ 3,646	$ 3,850	**$ 7,263**	$ 7,496
Return on common equity *(annualized) (a)*	**5.5%**	7.4%	8.8%	**6.4%**	8.3%
Non-GAAP adjusted *(a)*	**8.9%**	8.9%	10.1%	**8.9%**	9.6%
Return on tangible common equity *(annualized)* Non-GAAP *(a)*	**15.7%**	21.0%	26.3%	**18.3%**	25.3%
Non-GAAP adjusted *(a)*	**22.4%**	23.0%	27.6%	**22.7%**	26.6%
Return on average assets *(annualized)*	**0.61%**	0.83%	1.06%	**0.72%**	1.02%
Fee revenue as a percentage of total revenue excluding net securities gains (losses)	**78%**	78%	79%	**78%**	78%
Annualized fee revenue per employee (based on average headcount) *(in thousands)*	**$ 233**	$ 233	$ 248	**$ 233**	$ 243
Percentage of non-U.S. total revenue *(b)*	**37%**	37%	37%	**37%**	37%
Pre-tax operating margin *(a)*	**16%**	24%	27%	**20%**	26%
Non-GAAP adjusted *(a)*	**29%**	30%	31%	**29%**	30%
Net interest margin (FTE)	**1.25%**	1.32%	1.41%	**1.28%**	1.43%
Market value of assets under management at period end *(in billions)*	**$ 1,299**	$ 1,308	$ 1,274	**$ 1,299**	$ 1,274
Market value of assets under custody and administration at period end *(in trillions)*	**$ 27.1**	$ 26.6	$ 26.3	**$ 27.1**	$ 26.3
Market value of cross-border assets at period end *(in trillions)*	**$ 9.9**	$ 10.4	$ 10.1	**$ 9.9**	$ 10.1
Market value of securities on loan at period end *(in billions) (c)*	**$ 275**	$ 265	$ 273	**$ 275**	$ 273
Average common shares and equivalents outstanding *(in thousands)*:					
Basic	**1,181,350**	1,193,931	1,230,406	**1,187,649**	1,232,232
Diluted	**1,182,985**	1,195,558	1,233,710	**1,189,264**	1,236,016
Capital ratios *(d)*:					
Estimated Basel III Tier 1 common equity ratio*(a)(e)*	**8.7%**	N/A	N/A	**8.7%**	N/A
Basel I Tier 1 common equity to risk-weighted assets ratio Non-GAAP *(a)*	**13.2%**	13.9%	12.6%	**13.2%**	12.6%
Basel I Tier 1 capital ratio	**14.7%**	15.6%	14.1%	**14.7%**	14.1%
Basel I Total (Tier 1 plus Tier 2) capital ratio	**16.4%**	17.5%	16.7%	**16.4%**	16.7%
Basel I leverage capital ratio	**5.5%**	5.6%	5.8%	**5.5%**	5.8%
BNY Mellon shareholders equity to total assets ratio *(a)*	**10.5%**	11.3%	11.1%	**10.5%**	11.1%
	10.3%	11.3%	11.1%	**10.3%**	11.1%

BNY Mellon common shareholders equity to total assets ratio *(a)*					
Tangible common shareholders equity to tangible assets of operations ratio Non-GAAP *(a)*	**6.1%**	6.5%	6.0%	**6.1%**	6.0%

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The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited) continued

(dollar amounts in millions, except per common share amounts and unless otherwise noted)	Quarter ended			Year-to-date	
	June 30, 2012	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Selected average balances:					
Interest-earning assets	**$ 239,755**	$ 236,331	$ 209,923	**$ 238,042**	$ 200,105
Assets of operations	**$ 293,718**	$ 289,900	$ 264,254	**$ 291,808**	$ 253,863
Total assets	**$ 305,002**	$ 301,344	$ 278,480	**$ 303,172**	$ 268,147
Interest-bearing deposits	**$ 130,482**	$ 125,438	$ 125,958	**$ 127,959**	$ 121,263
Noninterest-bearing deposits	**$ 62,860**	$ 66,613	$ 43,038	**$ 64,737**	$ 40,839
Preferred stock	**$ 60**	$ -	$ -	**$ 30**	$ -
Total The Bank of New York Mellon Corporation common shareholders equity	**$ 34,123**	$ 33,718	$ 33,464	**$ 33,920**	$ 33,147
Other information at period end:					
Cash dividends per common share	**$ 0.13**	$ 0.13	$ 0.13	**$ 0.26**	$ 0.22
Common dividend payout ratio	**33%**	25%	22%	**29%**	20%
Common dividend yield *(annualized)*	**2.4%**	2.2%	2.0%	**2.4%**	1.7%
Closing common stock price per common share	**$ 21.95**	$ 24.13	$ 25.62	**$ 21.95**	$ 25.62
Market capitalization	**$ 25,929**	$ 28,780	$ 31,582	**$ 25,929**	$ 31,582
Book value per common share GAAP *(a)*	**$ 28.81**	$ 28.51	$ 27.46	**$ 28.81**	$ 27.46
Tangible book value per common share Non-GAAP *(a)*	**$ 11.47**	$ 11.17	$ 10.28	**$ 11.47**	$ 10.28
Full-time employees	**48,200**	47,800	48,900	**48,200**	48,900
Common shares outstanding *(in thousands)*	**1,181,298**	1,192,716	1,232,691	**1,181,298**	1,232,691

(a) See Supplemental information Explanation of Non-GAAP financial measures beginning on page 50 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 Federal Reserve s 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 ratio at June 30, 2012 is based on the Notices of Proposed Rulemaking (NPRs) and final market risk rule released on June 7, 2012. The estimated Basel III Tier 1 common equity ratios of 7.6% at March 31, 2012 and 6.5% at June 30, 2011 were based on prior Basel III guidance and the proposed market risk rule.

Part I Financial Information

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

General

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

Certain business terms used in this document are defined in the Glossary included in our Annual Report on Form 10-K for the year ended Dec. 31, 2011 (2011 Annual Report).

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

How we reported results

Throughout this Form 10-Q, measures which are noted as Non-GAAP exclude certain items. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons, using measures that relate to our ability to enhance revenues and limit expenses in circumstances where such matters are within our control. We also present the net interest margin on a fully taxable equivalent (FTE) basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. See Supplemental information Explanation of Non-GAAP financial measures beginning on page 50 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 June 30, 2012, we had $27.1 trillion in assets under custody and administration and $1.3 trillion in assets under management, serviced $11.5 trillion in outstanding debt and processed global payments averaging $1.4 trillion per day.

Second quarter 2012 and subsequent events

Settlement of securities lending matter

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 settlement agreement is subject to final court approval.

The company recorded an after-tax charge of $212 million (approximately $350 million pre-tax) in the second quarter of 2012 primarily related to claims involving Sigma investments. This charge includes in part the expected payment of $280 million settling the Sigma-related class action.

Proposed risk-based capital rules

On June 7, 2012, the U.S. regulatory agencies released three Notices of Proposed Rulemaking (NPRs) and final market risk rule which provide guidance on the determination of regulatory capital ratios. At June 30, 2012, our estimated Basel III Tier 1 common equity ratio calculated under the new guidelines was 8.7%. Our estimated Basel III Tier 1 common equity ratio of 7.6% at March 31, 2012 and 6.5% at June 30, 2011 were based on prior Basel III guidance and the proposed market risk rule. The sequential increase was primarily due to the reduction in risk-weighted assets related to the treatment of sub-investment grade securities, partially offset by the treatment of investment-grade securitizations and financial institution exposure. The positive impact of the NPRs was partially offset by balance sheet growth in the second quarter of 2012.

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See the Regulatory Developments section for a discussion of the NPRs and final market risk rule and the Capital section for the calculation of our estimated Basel III Tier 1 common equity ratio.

European Central Bank interest rate cut

On July 5, 2012, the European Central Bank (ECB) cut its main refinancing rate to 0.75% and reduced its deposit rate, which acts as a floor for the money markets, to zero. The combination of the lower ECB deposit rate and the balances maintained at the ECB could negatively impact our net interest revenue by approximately $20-$25 million in the second half of 2012. We expect to substantially mitigate the adverse impact of the rate cut through investment strategies. Additionally, the rate cut could result in an increase to our balance sheet if deposit balances were to increase as fund managers exit money market funds. We expect any impact to fee revenue from the rate cut to be immaterial.

Highlights of second quarter 2012 results

We reported net income applicable to common shareholders of BNY Mellon of $466 million, or $0.39 per diluted common share including a litigation charge of $212 million (after-tax) or $0.18 per common share, in the second quarter of 2012 compared with $735 million, or $0.59 per diluted common share, in the second quarter of 2011 and $619 million, or $0.52 per diluted common share, in the first quarter of 2012.

Highlights for the second quarter of 2012 include:

- Assets under custody and administration (AUC) totaled a record $27.1 trillion at June 30, 2012 compared with $26.3 trillion at June 30, 2011 and $26.6 trillion at March 31, 2012. This represents an increase of 3% compared with the prior year and 2% sequentially. The increases were driven by net new business, partially offset by lower equity market values. (See the Review of businesses Investment Services business beginning on page 23).
- Assets under management (AUM), excluding securities lending assets, totaled $1.30 trillion at June 30, 2012, compared with $1.27 trillion at June 30, 2011 and $1.31 trillion at March 31, 2012. This represents an increase of 2% compared with the prior year and a decrease of 1% sequentially. Year-over-year, net inflows were partially offset by lower equity market values. On a sequential basis, the decrease resulted from lower equity market values, partially offset by net inflows. (See the Review of businesses Investment Management business beginning on page 20).
- Investment services fees totaled $1.7 billion in the second quarter of 2012 compared with $1.8 billion in the second quarter of 2011. The decrease was primarily driven by the impact of the sale of the Shareowner Services business in the fourth quarter of 2011, lower Depositary Receipts revenue and higher money market fee waivers, partially offset by higher Clearing Services fees and net new business. (See the Review of businesses Investment Services business beginning on page 23).
- Investment management and performance fees totaled $797 million in the second quarter of 2012 compared with $779 million in the second quarter of 2011. The increase was primarily driven by higher performance fees and net new business, partially offset by lower equity market values. (See the Review of businesses Investment Management business beginning on page 20).
- Foreign exchange and other trading revenue totaled $180 million in the second quarter of 2012 compared with $222 million in the second quarter of 2011. In the second quarter of 2012, foreign exchange revenue totaled $157 million, a decrease of 15%, reflecting lower volatility and volumes. Other trading revenue was $23 million in the second quarter of 2012 compared with $38 million in the second quarter of 2011. The decrease was primarily driven by lower fixed income trading revenue. (See Fee and other revenue beginning on page 7).
- Investment and other income totaled $48 million in the second quarter of 2012 compared with $145 million in the second quarter of 2011. The decrease primarily resulted from lower asset-related gains and equity investment revenue. (See Fee and other revenue beginning on page 7).
- Net interest revenue totaled $734 million in the second quarter of 2012 compared with $731 million in the second quarter of 2011. The increase was primarily driven by higher average client deposits, increased investment in high- quality investment securities and higher loan levels, partially offset by narrower spreads and lower accretion. The net interest margin (FTE) for the second quarter of 2012 was 1.25% compared with 1.41% in the second quarter of 2011. The decrease reflects increased client

deposits which were invested in lower-yielding assets reflecting the current market environment. (See Net interest revenue on page 11).

The provision for credit losses was a credit of $19 million in the second quarter of 2012 primarily resulting 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. There was no provision in the second quarter of 2011. (See Consolidated balance sheet review Asset quality and allowance for credit losses beginning on page 36).

Noninterest expense totaled $3.0 billion in the second quarter of 2012 compared with $2.8 billion in the second quarter of 2011. The increase primarily reflects a litigation charge of approximately $350 million (pre-tax), partially offset by the impact of our operational excellence initiatives. (See Noninterest expense beginning on page 14).

BNY Mellon recorded an income tax provision of $93 million (15.8% effective tax rate) in the second quarter of 2012, which includes a reduction in the tax rate of approximately 9% related to the litigation charge. The operating tax rate Non-GAAP in the second quarter of 2012 was 26.1% and included an increased benefit of certain tax credits. This compared with an income tax provision of $277 million (26.9% effective tax rate) in the second quarter of 2011. (See Income taxes on page 16).

The unrealized pre-tax gain on our total investment securities portfolio was $1.4 billion at June 30, 2012 compared with $1.2 billion at March 31, 2012. The increase in the valuation of the investment securities portfolio primarily reflects a decline in market interest rates. (See Consolidated balance sheet review Investment securities beginning on page 30).

At June 30, 2012, our estimated Basel III Tier 1 common equity ratio was 8.7% based on the NPRs and final market risk rule. The increase in the ratio from 7.6% at March 31, 2012, which was calculated under prior Basel III guidance and the proposed market risk rule, was primarily due to the reduction in risk-weighted assets related to the treatment of sub-investment grade securities, partially offset by the treatment of investment grade securitizations and financial institution exposure. The positive impact of the NPRs was partially offset by balance sheet growth in the second quarter of 2012. (See Capital beginning on page 43).

We generated $527 million of gross Basel I Tier 1 common equity in the second quarter of 2012, primarily driven by earnings. Our Basel I Tier 1 capital ratio was 14.7% at June 30, 2012 compared with 14.1% at June 30, 2011. (See Capital beginning on page 43).

In the second quarter of 2012, we repurchased 12.2 million common shares in the open market at an average price of $23.38 per share for a total of $286 million.

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Fee and other revenue

Fee and other revenue *(a)*

(dollars in millions, unless otherwise noted)	**2Q12**	1Q12	2Q11	**2Q12 vs. 2Q11**	**2Q12 vs. 1Q12**	**Year-to-date 2012**	Year-to-date 2011	**YTD12 vs. YTD11**
Investment services fees:								
Asset servicing *(b)*	**$ 950**	$ 943	$ 973	**(2)%**	**1%**	**$ 1,893**	$ 1,890	%
Issuer services	**275**	251	365	**(25)**	**10**	**526**	716	(27)
Memo: Issuer services excluding Shareowner Services	*275*	*251*	*314*	*(12)*	*10*	*526*	*606*	*(13)*
Clearing services	**309**	303	292	**6**	**2**	**612**	584	5
Treasury services	**134**	136	134		**(1)**	**270**	268	1
Total investment services fees	**1,668**	1,633	1,764	**(5)**	**2**	**3,301**	3,458	(5)
Investment management and performance fees	**797**	745	779	**2**	**7**	**1,542**	1,543	
Foreign exchange and other trading revenue	**180**	191	222	**(19)**	**(6)**	**371**	420	(12)
Distribution and servicing	**46**	46	49	**(6)**		**92**	102	(10)
Financing-related fees	**37**	44	49	**(24)**	**(16)**	**81**	92	(12)
Investment and other income	**48**	139	145	**(67)**	**(65)**	**187**	226	(17)
Total fee revenue	**2,776**	2,798	3,008	**(8)**	**(1)**	**5,574**	5,841	(5)
Net securities gains (losses)	**50**	40	48	**4**	**25**	**90**	53	70
Total fee and other revenue GAAP	**2,826**	2,838	$ 3,056	**(8)**		**5,664**	5,894	(4)
Less: Fee and other revenue related to Shareowner Services *(c)*	**(3)**		54	**N/M**	**N/M**	**(3)**	116	N/M
Total fee and other revenue excluding Shareowner Services Non-GAAP	**$ 2,829**	$ 2,838	$ 3,002	**(6)%**	**%**	**$ 5,667**	$ 5,778	(2)%
Fee revenue as a percent of total revenue excluding net securities gains (losses)	**78%**	78%	79%			**78%**	78%	
Market value of AUM at period end *(in billions)*	**$ 1,299**	$ 1,308	$ 1,274	**2%**	**(1)%**	$ 1,299	$ 1,274	2%
Market value of AUC and administration at period end *(in trillions)*	**$ 27.1**	$ 26.6	$ 26.3	**3%**	**2%**	$ 27.1	$ 26.3	3%

(a) See Supplemental information Explanation of Non-GAAP financial measures beginning on page 50 for fee and other revenue excluding Shareowner Services Non-GAAP.

(b) Asset servicing fees include securities lending revenue of $59 million in the second quarter of 2012, $49 million in the first quarter of 2012, $62 million in the second quarter of 2011, $108 million in the first six months of 2012 and $99 million in the first six 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 $2.8 billion in the second quarter of 2012, a decrease of 8% year-over-year and was unchanged sequentially. Excluding the impact of the Shareowner Services business, fee and other revenue decreased 6% year-over-year primarily reflecting gains on loans held-for-sale retained from a previously divested bank subsidiary recorded in the second quarter of 2011, lower investment services fees, lower foreign exchange and other trading revenue and lower equity investment revenue, partially offset by higher investment management and performance fees and Clearing Services fees. Sequentially, fee and other revenue was virtually unchanged as lower investment and other income and lower foreign exchange and other revenue was offset by higher investment management and performance fees and investment services fees.

Investment services fees

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

Asset servicing fees were $950 million, a decrease of 2% year-over-year and an increase of 1% (unannualized) sequentially. The year-over-year decrease primarily reflects lower equity market values and securities lending revenue, partially offset by net new business. The sequential increase was primarily driven by net new business and seasonally higher securities lending revenue, partially offset by lower equity market values.

Issuer services fees were $275 million, a decrease of 25% year-over-year and an increase of 10% (unannualized) sequentially. Excluding Shareowner Services, Issuer services decreased 12% year-over-year. The year-over-year decrease primarily resulted from lower Depositary Receipts revenue, lower money market related fees and lower trust fees related to the weakness in structured products in Corporate Trust. The increase sequentially resulted from higher Depositary Receipts revenue as well as higher money market related fees in Corporate Trust.

Clearing services fees were $309 million, an increase of 6% year-over-year and 2% (unannualized) sequentially. The year-over-year increase was driven by higher mutual fund fees, partially offset by the impact of lower DARTS volume and higher money market fee waivers. The sequential increase primarily reflects higher mutual fund fees and lower money market fee waivers, partially offset by the impact of lower DARTS volume.

Treasury services fees were $134 million, unchanged compared with the second quarter of 2011 and a decrease of 1% (unannualized) sequentially. The sequential decrease reflects lower global payment fees.

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

Investment management and performance fees

Investment management and performance fees were $797 million, an increase of 2% year-over-year and 7% (unannualized) sequentially. Both increases reflect higher performance fees. Performance fees were $54 million in the second quarter of 2012, $18 million in the second quarter of 2011 and $16 million in the first quarter of 2012. Excluding performance fees, investment management fees decreased 2% year-over-year and increased 2% (unannualized) sequentially. The decrease year-over-year was primarily due to lower equity market values, partially offset by net new business. Sequentially, the increase was primarily due to net new business and higher money market fees, partially offset by lower equity market values.

Total AUM for the Investment Management business was $1.30 trillion at June 30, 2012 compared with $1.27 trillion at June 30, 2011 and $1.31 trillion at March 31, 2012. The 2% year-over-year increase primarily reflects net inflows, partially

offset by lower equity market values. On a sequential basis, the 1% decrease primarily resulted from lower equity market values, partially offset by net inflows.

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

Foreign exchange and other trading revenue

Foreign exchange and other trading revenue

				Year-to-date	
(in millions)	**2Q12**	1Q12	2Q11	**2012**	2011
Foreign exchange	**$ 157**	$ 136	$ 184	**$ 293**	$ 357
Fixed income	**16**	47	28	**63**	45
Credit derivatives *(a)*	**1**	(2)	(1)	**(1)**	(2)
Other	**6**	10	11	**16**	20
Total	**$ 180**	$ 191	$ 222	**$ 371**	$ 420

(a) Used as economic hedges of loans.

Foreign exchange and other trading revenue totaled $180 million in the second quarter of 2012, $222 million in the second quarter of 2011 and $191 million in the first quarter of 2012. In the second quarter of 2012, foreign exchange revenue totaled $157 million, a decrease of 15% year-over-year and an increase of 15% (unannualized) sequentially. The year-over-year decrease reflects lower volatility and volumes, while the sequential increase primarily resulted from higher volumes. Additionally, foreign exchange revenue continues to be impacted by increasingly competitive market pressures. Other trading revenue was $23 million in the second quarter of 2012 compared with $38 million in the second quarter of 2011 and $55 million in the first quarter of 2012. Both decreases were primarily driven by lower fixed income trading. Foreign exchange revenue is primarily reported in the Investment Services business. Other trading revenue is primarily reported in the Other segment.

The foreign exchange trading engaged in by the Company generates revenues, which are influenced by the volume of client transactions and the spread realized on these transactions. The level of volume and spreads is affected by market volatility, the level of cross-border assets held in custody for clients, the level and nature of underlying cross-border investments and other transactions undertaken by corporate and institutional

clients. These revenues also depend on our ability to manage the risk associated with the currency transactions we execute. A substantial majority of our foreign

exchange trades is undertaken for our custody clients in transactions where BNY Mellon acts as principal, and not as an agent or broker. As a principal, we earn a profit, if any, based on our ability to risk manage the aggregate foreign currency positions that we buy and sell on a daily basis. Generally speaking, custody clients enter into foreign exchange transactions in one of three ways: *negotiated trading* with BNY Mellon, BNY Mellon s *standing instruction program*, or transactions with *third-party foreign exchange providers*. *Negotiated trading* generally refers to orders entered by the client or the client s investment manager, with all decisions related to the transaction, usually on a transaction-specific basis, made by the client or its investment manager. Such transactions may be initiated by (i) contacting one of our sales desks to negotiate the rate for specific transactions, (ii) using electronic trading platforms, or (iii) electing other methods such as those pursuant to a benchmarking arrangement, in which pricing is determined by an objective market rate plus a pre-negotiated spread. The preponderance of the notional value of our trading volume with clients is in negotiated trading. Our *standing instruction program*, including a new 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 may also 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 our estimation of the current market rate for a particular currency or based on 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 restricted and other 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 June 30, 2012, our total revenue for all types of foreign exchange trading transactions was $157 million, which is approximately 4% of our total revenue. Approximately 48% 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 $46 million in the second quarter of 2012 compared with $49 million in the second quarter of 2011 and $46 million in the first quarter of 2012. The year-over-year decrease primarily reflects higher money market fee waivers. Sequentially, distribution and servicing fees were unchanged reflecting lower money market fee waivers offset by lower equity market values.

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 $37 million in the second quarter of 2012, $49 million in the second quarter of 2011 and $44 million in the first quarter of 2012. Both decreases were primarily driven by lower capital markets fees and credit-related fees.

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Investment and other income

Investment and other income				**Year-to-date**	
(in millions)	**2Q12**	1Q12	2Q11	**2012**	2011
Corporate/bank-owned life insurance	**$ 32**	$ 34	$ 42	**$ 66**	$ 79
Lease residual gains (losses)	**3**	34	(5)	**37**	8
Seed capital gains		24	3	**24**	5
Expense reimbursements from joint ventures	**9**	10	8	**19**	17
Equity investment revenue (loss)	**(5)**	6	19	**1**	24
Private equity gains (losses)	**1**	4	12	**5**	22
Asset-related gains (losses)		(2)	66	**(2)**	80
Other income (loss)	**8**	29		**37**	(9)
Total	**$ 48**	$ 139	$ 145	**$ 187**	$ 226

Investment and other income, which is primarily reported in the Other segment and Investment Management business, includes income from insurance contracts, lease residual gains and losses, gains and losses on seed capital investments, equity investment income, gains and losses on private equity investments, asset-related gains (losses), expense reimbursements from joint ventures and other income (loss). Asset-related gains (losses) 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 decreased $97 million compared with the second quarter of 2011 and $91 million compared with the first quarter of 2012. The year-over-year decrease primarily resulted from lower asset-related gains and equity investment revenue. Sequentially, the decrease was primarily driven by lower leasing gains, seed capital gains and equity investment revenue.

Net securities gains (losses)

Net securities gains totaled $50 million in the second quarter of 2012 compared with $48 million in the second quarter of 2011 and $40 million in the first quarter of 2012.

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

Fee and other revenue for the first six months of 2012 totaled $5.7 billion compared with $5.9 billion in the first six 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 2% primarily reflecting lower issuer services fees, investment and other income and foreign exchange and other trading revenue, offset in part by higher net securities gains.

The decrease in issuer services fees primarily reflects lower Depositary Receipts revenue and higher money market fee waivers. The decrease in foreign exchange and other trading revenue was primarily driven by lower foreign exchange revenue resulting from lower volumes and volatility. The decrease in investment and other income in the first six months of 2012 reflects lower gains on asset sales and lower equity investment revenue, partially offset by higher lease residual gains. Net securities gains (losses) increased $37 million in the first six months of 2012 compared with the first six months of 2011.

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Net interest revenue

Net interest revenue								**YTD12**
				2Q12 vs.		**Year-to-date**		**vs.**
(dollars in millions)	**2Q12**	1Q12	2Q11	**2Q11**	**1Q12**	**2012**	2011	**YTD11**
Net interest revenue (non-FTE)	**$ 734**	$ 765	$ 731	**%**	**(4)%**	**$ 1,499**	$ 1,429	**5%**
Tax equivalent adjustment	**13**	11	6	**N/M**	**N/M**	**24**	10	**N/M**
Net interest revenue (FTE) Non-GAAP	**$ 747**	$ 776	$ 737	**1%**	**(4)%**	**$ 1,523**	$ 1,439	**6%**
Average interest-earning assets	**$ 239,755**	$ 236,331	$ 209,923	**14%**	**1%**	**$ 238,042**	$ 200,105	**19%**
Net interest margin (FTE)	**1.25%**	1.32%	1.41%	**(16) bps**	**(7) bps**	**1.28%**	1.43%	**(15) bps**

bps basis points.

FTE - fully taxable equivalent.

Net interest revenue totaled $734 million in the second quarter of 2012, an increase of $3 million compared with the second quarter of 2011 and a decrease of $31 million sequentially. The year-over-year increase in net interest revenue was primarily driven by higher average client deposits, increased investment in high-quality investment securities and higher loan levels, partially offset by narrower spreads and lower accretion. Compared with the first quarter of 2012, net interest revenue was adversely impacted by narrower spreads and lower accretion.

The net interest margin (FTE) was 1.25% in the second quarter of 2012 compared with 1.41% in the second quarter of 2011 and 1.32% in the first quarter of 2012. The year-over-year decrease in the net interest margin (FTE) was primarily driven by increased client deposits which were invested in

lower-yielding assets reflecting the current market environment. The sequential decrease in the net interest margin (FTE) reflects the impact of narrower spreads and lower accretion.

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

Net interest revenue totaled $1.5 billion in the first six months of 2012 and $1.4 billion in the first six months of 2011. The increase primarily reflects higher average client deposits, increased investment in high-quality investment securities and higher loan levels, partially offset by narrower spreads and lower accretion. The net interest margin (FTE) was 1.28% in the first six months of 2012, compared with 1.43% in the first six months of 2011. The decline was primarily driven by increased client deposits which were invested in lower-yielding assets.

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Average balances and interest rates

Average balances and interest rates	Quarter ended					
	June 30, 2012		March 31, 2012		June 30, 2011	
(dollar amounts in millions)	**Average balance**	**Average rates**	Average balance	Average rates	Average balance	Average rates
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks (primarily foreign banks)	**$ 38,474**	**0.98%**	$ 35,095	1.30%	$ 59,291	0.98%
Interest-bearing deposits held at the Federal Reserve and other central banks	**57,904**	**0.27**	63,526	0.27	34,068	0.32
Federal funds sold and securities purchased under resale agreements	**5,493**	**0.62**	5,174	0.73	4,577	0.46
Margin loans	**13,331**	**1.27**	12,901	1.29	9,508	1.34
Non-margin loans:						
Domestic offices	**19,663**	**2.52**	20,128	2.46	21,093	2.54
Foreign offices	**9,998**	**1.86**	10,180	1.77	9,727	1.53
Total non-margin loans	**29,661**	**2.30**	30,308	2.23	30,820	2.23
Securities:						
U.S. government obligations	**15,387**	**1.65**	17,268	1.56	14,337	1.63
U.S. government agency obligations	**39,070**	**2.23**	32,347	2.44	20,466	3.09
State and political subdivisions tax exempt	**4,777**	**2.65**	3,354	2.97	934	5.32
Other securities	**32,625**	**2.51**	33,839	2.84	33,045	3.25
Trading securities	**3,033**	**2.57**	2,519	2.78	2,877	2.44
Total securities	**94,892**	**2.26**	89,327	2.44	71,659	2.87
Total interest-earning assets	**$ 239,755**	**1.48%**	$ 236,331	1.56%	$ 209,923	1.70%
Allowance for loan losses	**(382)**		(392)		(463)	
Cash and due from banks	**4,412**		4,271		4,335	
Other assets	**49,933**		49,690		50,459	
Assets of consolidated investment management funds	**11,284**		11,444		14,226	
Total assets	**$ 305,002**		$ 301,344		$ 278,480	
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Money market rate accounts	**$ 8,236**	**0.24%**	$ 4,299	0.27%	$ 4,029	0.41%
Savings	**702**	**0.13**	704	0.10	1,561	0.12
Time deposits	**33,180**	**0.11**	33,618	0.08	34,853	0.09
Demand deposits	**185**	**0.32**	147	0.36	85	0.91
Foreign offices	**88,179**	**0.13**	86,670	0.15	85,430	0.26
Total interest-bearing deposits	**130,482**	**0.13**	125,438	0.14	125,958	0.22
Federal funds purchased and securities sold under repurchase agreements	**11,254**	**0.01**	8,584	(0.02)	10,894	0.06
Trading liabilities	**1,256**	**1.87**	1,153	1.55	1,524	2.35
Other borrowed funds	**2,550**	**0.99**	2,579	0.79	1,877	0.99
Payables to customers and broker-dealers	**7,895**	**0.10**	7,555	0.11	6,843	0.09
Long-term debt	**20,084**	**1.67**	20,538	1.79	17,380	1.63
Total interest-bearing liabilities	**$ 173,521**	**0.32%**	$ 165,847	0.34%	$ 164,476	0.38%
Total noninterest-bearing deposits	**62,860**		66,613		43,038	
Other liabilities	**23,588**		24,248		23,694	
Liabilities and obligations of consolidated investment management funds	**10,072**		10,159		12,966	
Total liabilities	**270,041**		266,867		244,174	
Temporary equity						
Redeemable noncontrolling interests	**78**		72		65	
Permanent equity						
Total BNY Mellon shareholders equity	**34,183**		33,718		33,464	
Noncontrolling interests	**700**		687		777	
Total permanent equity	**34,883**		34,405		34,241	

Total liabilities, temporary equity and permanent equity	**$ 305,002**	$ 301,344	$ 278,480
Net interest margin (FTE)	**1.25%**	1.32%	1.41%

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

	Year-to-date			
	June 30, 2012		June 30, 2011	
(dollar amounts in millions)	**Average balance**	**Average rates**	Average balance	Average rates
Assets				
Interest-earning assets:				
Interest-bearing deposits with banks (primarily foreign banks)	**$ 36,784**	**1.14%**	$ 58,468	0.94%
Interest-bearing deposits held at the Federal Reserve and other central banks	**60,715**	**0.27**	27,255	0.32
Federal funds sold and securities purchased under resale agreements	**5,333**	**0.67**	4,546	0.47
Margin loans	**13,116**	**1.28**	8,502	1.40
Non-margin loans:				
Domestic offices	**19,895**	**2.49**	21,472	2.55
Foreign offices	**10,089**	**1.81**	9,478	1.49
Total non-margin loans	**29,984**	**2.26**	30,950	2.22
Securities:				
U.S. government obligations	**16,328**	**1.61**	13,597	1.61
U.S. government agency obligations	**35,709**	**2.33**	20,344	3.02
State and political subdivisions tax exempt	**4,066**	**2.78**	747	5.66
Other securities	**33,231**	**2.67**	32,411	3.31
Trading securities	**2,776**	**2.67**	3,285	2.44
Total securities	**92,110**	**2.36**	70,384	2.89
Total interest-earning assets	**$ 238,042**	**1.53%**	$ 200,105	1.75%
Allowance for loan losses	**(387)**		(479)	
Cash and due from banks	**4,341**		4,215	
Other assets	**49,812**		50,022	
Assets of consolidated investment management funds	**11,364**		14,284	
Total assets	**$ 303,172**		$ 268,147	
Liabilities				
Interest-bearing liabilities:				
Interest-bearing deposits:				
Money market rate accounts	**$ 6,267**	**0.25%**	$ 4,719	0.38%
Savings	**703**	**0.12**	1,539	0.12
Time deposits	**33,399**	**0.10**	33,494	0.09
Demand deposits	**166**	**0.33**	84	0.89
Foreign offices	**87,424**	**0.14**	81,427	0.22
Total interest-bearing deposits	**127,959**	**0.14**	121,263	0.19
Federal funds purchased and securities sold under repurchase agreements	**9,919**		8,049	0.06
Trading liabilities	**1,205**	**1.72**	2,141	2.04
Other borrowed funds	**2,564**	**0.89**	1,849	1.30
Payables to customers and broker-dealers	**7,725**	**0.11**	6,772	0.09
Long-term debt	**20,311**	**1.73**	17,198	1.75
Total interest-bearing liabilities	**$ 169,683**	**0.34%**	$ 157,272	0.39%
Total noninterest-bearing deposits	**64,737**		40,839	
Other liabilities	**23,919**		23,026	
Liabilities and obligations of consolidated investment management funds	**10,115**		13,040	
Total liabilities	**268,454**		234,177	
Temporary equity				
Redeemable noncontrolling interests	**75**		70	
Permanent equity				
Total BNY Mellon shareholders equity	**33,950**		33,147	
Noncontrolling interests	**693**		753	
Total permanent equity	**34,643**		33,900	
Total liabilities, temporary equity and permanent equity	**$ 303,172**		$ 268,147	
Net interest margin (FTE)		**1.28%**		1.43%

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

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Noninterest expense

Noninterest expense				**2Q12 vs.**		**Year-to-date**		**YTD12 vs.**
(dollars in millions)	**2Q12**	1Q12	2Q11	**2Q11**	**1Q12**	**2012**	2011	**YTD11**
Staff:								
Compensation	**$ 866**	$ 861	$ 903	**(4)%**	**1%**	**$ 1,727**	$ 1,779	**(3)%**
Incentives	**311**	352	328	**(5)**	**(12)**	**663**	653	**2**
Employee benefits	**238**	240	232	**3**	**(1)**	**478**	455	**5**
Total staff	**1,415**	1,453	1,463	**(3)**	**(3)**	**2,868**	2,887	**(1)**
Professional, legal and other purchased services	**309**	299	301	**3**	**3**	**608**	584	**4**
Net occupancy	**141**	147	161	**(12)**	**(4)**	**288**	314	**(8)**
Software	**127**	119	121	**5**	**7**	**246**	243	**1**
Distribution and servicing	**103**	101	109	**(6)**	**2**	**204**	220	**(7)**
Furniture and equipment	**82**	86	82		**(5)**	**168**	166	**1**
Sub-custodian	**70**	70	88	**(20)**		**140**	156	**(10)**
Business development	**71**	56	73	**(3)**	**27**	**127**	129	**(2)**
Other	**254**	220	247	**3**	**15**	**474**	476	
Amortization of intangible assets	**97**	96	108	**(10)**	**1**	**193**	216	**(11)**
M&I, litigation and restructuring charges	**378**	109	63	**N/M**	**N/M**	**487**	122	**N/M**
Total noninterest expense GAAP	**$ 3,047**	$ 2,756	$ 2,816	**8%**	**11%**	**$ 5,803**	$ 5,513	**5%**
Total staff expense as a percent of total revenue	**39%**	40%	38%			**39%**	39%	
Full-time employees at period end	**48,200**	47,800	48,900	**(1)%**	**1%**	**48,200**	48,900	**(1)%**

N/M Not meaningful.

Noninterest expense excluding Shareowner Services				**2Q12 vs.**		**Year-to-date**		**YTD12 vs.**
(dollars in millions)	**2Q12**	1Q12	2Q11	**2Q11**	**1Q12**	**2012**	2011	**YTD11**
Staff:								
Compensation	**$ 866**	$ 861	$ 888	**(2)%**	**1%**	**$ 1,727**	$ 1,750	**(1)%**
Incentives	**311**	352	327	**(5)**	**(12)**	**663**	650	**2**
Employee benefits	**238**	240	229	**4**	**(1)**	**478**	448	**7**
Total staff	**1,415**	1,453	1,444	**(2)**	**(3)**	**2,868**	2,848	**1**
Professional, legal and other purchased services	**309**	299	289	**7**	**3**	**608**	561	**8**
Net occupancy	**141**	147	158	**(11)**	**(4)**	**288**	308	**(6)**
Software	**127**	119	119	**7**	**7**	**246**	238	**3**
Distribution and servicing	**103**	101	109	**(6)**	**2**	**204**	220	**(7)**
Furniture and equipment	**82**	86	82		**(5)**	**168**	165	**2**
Sub-custodian	**70**	70	88	**(20)**		**140**	156	**(10)**
Business development	**71**	56	72	**(1)**	**27**	**127**	128	**(1)**
Other	**254**	220	237	**7**	**15**	**474**	458	**3**
Subtotal	**2,572**	2,551	2,598	**(1)**	**1**	**5,123**	5,082	**1**
Amortization of intangible assets	**97**	96	104	**(7)**	**1**	**193**	209	**(8)**
M&I, litigation and restructuring charges	**378**	109	63	**N/M**	**N/M**	**487**	122	**N/M**
Total noninterest expense Non-GAAP	**$ 3,047**	$ 2,756	$ 2,765	**10%**	**11%**	**$ 5,803**	$ 5,413	**7%**
Total staff expense as a percent of total revenue	**39%**	40%	38%			**39%**	38%	
Full-time employees at period end	**48,200**	47,800	48,000	**%**	**1%**	**48,200**	48,000	**%**

N/M Not meaningful.

Total noninterest expense increased 8% compared with the second quarter of 2011 and 11% (unannualized) compared with the first quarter of 2012. Both increases were driven by the litigation charge recorded in the second quarter of 2012. Excluding amortization of intangible assets, merger and integration expenses (M&I), litigation and restructuring charges and the direct expenses related to Shareowner Services, noninterest expense decreased 1% year-over-year, reflecting the impact

of our operational excellence initiatives, and increased 1% (unannualized) sequentially. Sequentially, noninterest expenses increased slightly primarily due to the costs of certain tax credits, higher business development expenses and a deposit levy imposed on Belgian banks, including our Belgian bank subsidiary, largely offset by lower staff expense.

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The following staff and non-staff expense discussions exclude the impact of the Shareowner Services business.

Staff expense

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

Staff expense totaled $1.4 billion in the second quarter of 2012, a decrease of 2% compared with the second quarter of 2011 and 3% (unannualized) compared with the first quarter of 2012. The year-over-year decrease in staff expense primarily reflects lower compensation and incentive expenses. The sequential decrease was driven by lower incentive expense.

Non-staff expense

Non-staff expense, excluding amortization of intangible assets, M&I, litigation and restructuring charges totaled $1.2 billion in the second quarter of 2012, unchanged compared with the second quarter of 2011 and an increase of 5% (unannualized) compared with the first quarter of 2012. Non-staff expense year-over-year primarily reflects the impact of our operational excellence initiatives, partially offset by higher professional, legal and other purchased services. The sequential increase was driven by the costs of certain tax credits, higher

business development expenses and a deposit levy imposed on Belgian banks, including our Belgian bank subsidiary, primarily offset by our operational excellence initiatives.

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. The settlement agreement is subject to final court approval. 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 17 of the Notes to Consolidated Financial Statements.

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

Noninterest expense in the first six months of 2012 increased $290 million, or 5% compared with the first six months of 2011. The increase primarily reflects the litigation charge recorded in the second quarter of 2012, higher professional, legal and other purchased services, pension expense and the cost of certain tax credits, partially offset by lower compensation expense and the impact of our operational excellence initiatives.

Operational excellence initiatives update

Expense initiatives (pre-tax)		**Program savings**		**Annualized targeted savings**
(dollar amounts in millions)	1Q12	**2Q12**	**through 2Q12**	**by the end of 2012**
Business operations	$ 45	$ 55	$ 100	$ 225 - 240
Technology	16	21	37	$ 75 - 85
Corporate services	14	18	32	$ 60 - 65
Gross savings *(a)*	75	94	169	$ 360 - 390
Less: Incremental program costs *(b)*	5	23	28	$ 120 - 130

Net savings *(c)*	$ 70	$ 71	$ 141	$ 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.

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 June 30, 2012, we accomplished the following operational excellence initiatives:

Business Operations

- Consolidated Treasury Services functions from New York, Philadelphia and Boston to Pittsburgh.
- Continued global footprint position migrations.
- 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.

Technology

- Migrated GIS systems to BNY Mellon platforms over 90% of the production applications have been successfully migrated as of June 30, 2012.
- Insourced software engineers to Global Delivery Centers.
- Standardized infrastructure through server elimination and software rationalization.

Corporate Services

- Consolidated real estate in Los Angeles and New York.
- Benefited from the new global procurement program.

Income taxes

The effective tax rate was 15.8% in the second quarter of 2012 and includes a reduction in the tax rate of approximately 9% related to the litigation charge. The operating tax rate Non-GAAP in the second quarter of 2012 was 26.1% and includes an increased benefit of certain tax credits. The effective tax rate was 26.9% in the second quarter of 2011 and 28.7% in the first quarter of 2012. See Supplemental information Explanation of Non-GAAP financial measures beginning on page 50 for additional information.

We expect the effective tax rate to be approximately 27%-28% in the third 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 18 of the Notes to Consolidated Financial Statements.

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

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

Market indices						2Q12 vs.		Year-to-date		YTD12 vs.
	2Q11	3Q11	4Q11	1Q12	**2Q12**	**2Q11**	**1Q12**	**2012**	2011	**YTD11**
S&P 500 Index *(a)*	1321	1131	1258	1408	**1362**	**3%**	**(3)%**	**1362**	1321	**3%**
S&P 500 Index daily average	1318	1227	1224	1347	**1351**	**3**		**1349**	1310	**3**
FTSE 100 Index *(a)*	5946	5128	5572	5768	**5571**	**(6)**	**(3)**	**5571**	5946	**(6)**
FTSE 100 Index daily average	5906	5470	5424	5818	**5555**	**(6)**	**(5)**	**5690**	5926	**(4)**
MSCI World Index *(a)*	1331	1104	1183	1312	**1236**	**(7)**	**(6)**	**1236**	1331	**(7)**
MSCI World Index daily average	1332	1217	1169	1268	**1235**	**(7)**	**(3)**	**1250**	1326	**(6)**
Barclays Capital Aggregate Bond[SM] Index *(a)*	341	346	347	351	**353**	**4**	**1**	**353**	341	**4**
NYSE and NASDAQ share volume *(in billions)*	213	250	206	186	**192**	**(10)**	**3**	**378**	434	**(13)**
JPMorgan G7 Volatility Index daily average *(b)*	11.21	12.60	12.95	10.39	**10.30**	**(8)**	**(1)**	**10.35**	11.14	**(7)**

(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 June 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 June 30, 2012

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

(a) Total fee and other revenue includes income from consolidated investment management funds of $57 million, net of noncontrolling interests of $29 million, for a net impact of $28 million. Income before taxes includes noncontrolling interests of $29 million.

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

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For the quarter ended March 31, 2012

(dollar amounts in millions)	**Investment Management**	**Investment Services**	**Other**	**Consolidated**
Fee and other revenue	$ 852*(a)*	$ 1,852	$ 166	$ 2,870*(a)*
Net interest revenue	55	642	68	765
Total revenue	907	2,494	234	3,635
Provision for credit losses	-	16	(11)	5
Noninterest expense	667	1,827	262	2,756
Income (loss) before taxes	$ 240*(a)*	$ 651	$ (17)	$ 874*(a)*
Pre-tax operating margin *(b)*	26%	26%	N/M	24%
Average assets	$ 36,475	$ 214,135	$ 50,734	$ 301,344
Excluding amortization of intangible assets:				
Noninterest expense	$ 619	$ 1,779	$ 262	$ 2,660
Income (loss) before taxes	288*(a)*	699	(17)	970*(a)*
Pre-tax operating margin *(b)*	32%	28%	N/M	27%

(a) Total fee and other revenue includes income from consolidated investment management funds of $43 million, net of noncontrolling interests of $11 million, for a net impact of $32 million. Income before taxes includes noncontrolling interests of $11 million.
(b) Income before taxes divided by total revenue.
N/M Not meaningful.

For the quarter ended June 30, 2011

(dollar amounts in millions)	**Investment Management**	**Investment Services**	**Other**	**Consolidated**
Fee and other revenue	$ 862*(a)*	$ 1,967	$ 269	$ 3,098*(a)*
Net interest revenue	48	649	34	731
Total revenue	910	2,616	303	3,829
Provision for credit losses	1	-	(1)	-
Noninterest expense	694	1,827	295	2,816
Income (loss) before taxes	$ 215*(a)*	$ 789	$ 9	$ 1,013*(a)*
Pre-tax operating margin *(b)*	24%	30%	N/M	26%
Average assets	$ 36,741	$ 191,756	$ 49,983	$ 278,480
Excluding amortization of intangible assets:				
Noninterest expense	$ 641	$ 1,777	$ 290	$ 2,708
Income (loss) before taxes	268*(a)*	839	14	1,121*(a)*
Pre-tax operating margin *(b)*	29%	32%	N/M	29%

(a) Total fee and other revenue includes income from consolidated investment management funds of $63 million, net of noncontrolling interests of $21 million, for a net impact of $42 million. Income before taxes includes noncontrolling interests of $21 million.
(b) Income before taxes divided by total revenue.
N/M Not meaningful.

For the six months ended June 30, 2012

(dollar amounts in millions)	**Investment Management**	**Investment Services**	**Other**	**Consolidated**
Fee and other revenue	**$ 1,713***(a)*	**$ 3,733**	**$ 278**	**$ 5,724***(a)*
Net interest revenue	**107**	**1,249**	**143**	**1,499**

Total revenue	**1,820**	**4,982**	**421**	**7,223**
Provision for credit losses	**-**	**2**	**(16)**	**(14)**
Noninterest expense	**1,357**	**3,973**	**473**	**5,803**
Income (loss) before taxes	**$ 463***(a)*	**$ 1,007**	**$ (36)**	**$ 1,434***(a)*
Pre-tax operating margin *(b)*	**25%**	**20%**	**N/M**	**20%**
Average assets	**$ 36,222**	**$ 211,795**	**$ 55,155**	**$ 303,172**
Excluding amortization of intangible assets:				
Noninterest expense	**$ 1,261**	**$ 3,876**	**$ 473**	**$ 5,610**
Income (loss) before taxes	**559***(a)*	**1,104**	**(36)**	**1,627***(a)*
Pre-tax operating margin *(b)*	**31%**	**22%**	**N/M**	**23%**

(a) Total fee and other revenue includes income from consolidated investment management funds of $100 million, net of noncontrolling interests of $40 million, for a net impact of $60 million. Income before taxes includes noncontrolling interests of $40 million.

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

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For the six months ended June 30, 2011

(dollar amounts in millions)	**Investment Management**	**Investment Services**	**Other**	**Consolidated**
Fee and other revenue	$ 1,730*(a)*	$ 3,856	$ 416	$ 6,002*(a)*
Net interest revenue	100	1,270	59	1,429
Total revenue	1,830	5,126	475	7,431
Provision for credit losses	1	-	(1)	-
Noninterest expense	1,376	3,579	558	5,513
Income (loss) before taxes	$ 453*(a)*	$ 1,547	$ (82)	$ 1,918*(a)*
Pre-tax operating margin *(b)*	25%	30%	N/M	26%
Average assets	$ 37,027	$ 184,002	$ 47,118	$ 268,147
Excluding amortization of intangible assets:				
Noninterest expense	$ 1,268	$ 3,479	$ 550	$ 5,297
Income (loss) before taxes	561*(a)*	1,647	(74)	2,134*(a)*
Pre-tax operating margin *(b)*	31%	32%	N/M	29%

(a) Total fee and other revenue includes income from consolidated investment management funds of $173 million, net of noncontrolling interests of $65 million, for a net impact of $108 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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Investment Management business

(dollar amounts in millions, unless otherwise noted)	2Q11	3Q11	4Q11	1Q12	**2Q12**	**2Q12 vs. 2Q11**	**2Q12 vs. 1Q12**	**Year-to-date 2012**	**Year-to-date 2011**	**YTD12 vs. YTD11**
Revenue:										
Investment management fees:										
Mutual funds	$ 290	$ 263	$ 237	$ 260	**$ 270**	**(7)%**	**4%**	**$ 530**	$ 573	**(8)%**
Institutional clients	319	311	299	322	**321**	**1**	**-**	**643**	638	**1**
Wealth management	163	157	154	157	**158**	**(3)**	**1**	**315**	327	**(4)**
Investment management fees	772	731	690	739	**749**	**(3)**	**1**	**1,488**	1,538	**(3)**
Performance fees	18	11	47	16	**54**	**N/M**	**N/M**	**70**	35	**N/M**
Distribution and servicing	48	41	41	45	**45**	**(6)**	**-**	**90**	99	**(9)**
Other *(a)*	24	(26)	(11)	52	**13**	**N/M**	**N/M**	**65**	58	**N/M**
Total fee and other revenue *(a)*	862	757	767	852	**861**	**-**	**1**	**1,713**	1,730	**(1)**
Net interest revenue	48	51	55	55	**52**	**8**	**(5)**	**107**	100	**7**
Total revenue	910	808	822	907	**913**	**-**	**1**	**1,820**	1,830	**(1)**
Provision for credit losses	1	-	-	-	**-**	**N/M**	**N/M**	**-**	1	**N/M**
Noninterest expense (ex. amortization of intangible assets)	641	622	632	619	**642**	**-**	**4**	**1,261**	1,268	**(1)**
Income before taxes (ex. amortization of intangible assets)	268	186	190	288	**271**	**1**	**(6)**	**559**	561	**-**
Amortization of intangible assets	53	53	53	48	**48**	**(9)**	**-**	**96**	108	**(11)**
Income before taxes	$ 215	$ 133	$ 137	$ 240	**$ 223**	**4%**	**(7)%**	**$ 463**	$ 453	**2%**
Pre-tax operating margin	24%	16%	17%	26%	**24%**			**25%**	25%	
Pre-tax operating margin (ex. amortization of intangible assets and net of distribution and servicing expense) *(b)*	33%	26%	26%	36%	**34%**			**35%**	35%	
Wealth management:										
Average loans	$ 6,884	$ 6,958	$ 7,209	$ 7,430	**$ 7,763**	**13%**	**4%**	**$ 7,597**	$ 6,855	**11%**
Average deposits	$ 8,996	$ 10,392	$ 11,761	$ 11,491	**$ 11,259**	**25%**	**(2)%**	**$ 11,375**	$ 9,133	**25%**

(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 50. 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 $108 million, $99 million, $95 million, $100 million, $102 million, $202 million and $218 million, respectively.

N/M Not meaningful.

AUM trends *(a)* *(dollar amounts in billions)*	2Q11	3Q11	4Q11	1Q12	**2Q12**	**2Q12 vs. 2Q11**	**2Q12 vs. 1Q12**
AUM at period end, by product type:							
Equity securities	$ 428	$ 354	$ 390	$ 429	**$ 417**	**(3)%**	**(3)%**
Fixed income securities	398	419	437	451	**480**	**21**	**6**
Money market	337	321	328	319	**299**	**(11)**	**(6)**
Alternative investments and overlay	111	104	105	109	**103**	**(7)**	**(6)**
Total AUM	$ 1,274	$ 1,198	$ 1,260	$ 1,308	**$ 1,299**	**2%**	**(1)%**
AUM at period end, by client type:							
Institutional	$ 733	$ 719	$ 757	$ 829	**$ 835**	**14%**	**1%**
Mutual funds	462	406	427	404	**388**	**(16)**	**(4)**
Private client	79	73	76	75	**76**	**(4)**	**1**
Total AUM	$ 1,274	$ 1,198	$ 1,260	$ 1,308	**$ 1,299**	**2%**	**(1)%**
Changes in market value of AUM:							
Beginning balance	$ 1,229	$ 1,274	$ 1,198	$ 1,260	**$ 1,308**		
Net inflows (outflows):							
Long-term	32	4	16	7	**26**		

Money market	(1)	(15)	7	(9)	**(14)**		
Total net inflows (outflows)	31	(11)	23	(2)	**12**		
Net market/currency impact	14	(65)	39	50	**(21)**		
Ending balance	$ 1,274	$ 1,198	$ 1,260	$ 1,308	**$ 1,299**	**2%**	**(1)%**

(a) Excludes securities lending cash management assets.

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 $1.30 trillion at June 30, 2012 compared with $1.27 trillion at June 30, 2011 and $1.31 trillion at March 31, 2012. Year-over-year, net inflows were partially offset by lower equity market values. On a sequential basis, the decrease resulted from lower equity market values, partially offset by net inflows.

Long-term inflows in the second quarter of 2012 totaled $26 billion and short-term outflows totaled $14 billion. Long-term inflows benefited from fixed income and equity indexed products.

Revenue generated in the Investment Management business includes 44% from non-U.S. sources in the second quarter of 2012 compared with 41% in the second quarter of 2011 and 45% in the first quarter of 2012.

In the second quarter of 2012, the Investment Management business had pre-tax income of $223 million compared with $215 million in the second quarter of 2011 and $240 million in the first quarter of 2012. Excluding amortization of intangible assets, pre-tax income was $271 million in the second quarter of 2012 compared with $268 million in the second quarter of 2011 and $288 million in the first quarter of 2012. Investment Management results improved compared with the prior year period reflecting higher performance fees and net new business, partially offset by lower equity market values. On a sequential basis, Investment Management results declined reflecting lower equity market values and higher incentive expense, partially offset by higher performance fees and net new business.

Investment management fees in the Investment Management business were $749 million in the second quarter of 2012 compared with $772 million in the second quarter of 2011 and $739 million in

the first quarter of 2012. The year-over-year decrease was primarily due to lower equity market values, partially offset by net new business. Sequentially, the increase was primarily due to net new business and higher money market fees, partially offset by lower equity market values.

Performance fees were $54 million in the second quarter of 2012 compared with $18 million in the second quarter of 2011 and $16 million in the first quarter of 2012. Both increases primarily reflect investment strategies which exceeded their benchmarks for measurement periods ending in the second quarter of 2012.

In the second quarter of 2012, 36% of investment management fees in the Investment Management business were generated from managed mutual fund fees. These fees are based on the daily average net assets of each fund and the management fee paid by that fund. Managed mutual fund fee revenue was $270 million in the second quarter of 2012 compared with $290 million in the second quarter of 2011 and $260 million in the first quarter of 2012. The year-over-year decrease primarily reflects higher money market fee waivers and lower equity market values. The sequential increase primarily resulted from lower money market fee waivers, partially offset by lower equity market values.

Distribution and servicing fees were $45 million in the second quarter of 2012 compared with $48 million in the second quarter of 2011 and $45 million in the first quarter of 2012. The year-over-year decrease primarily reflects higher money market fee waivers.

Other fee revenue was $13 million in the second quarter of 2012 compared with $24 million in the second quarter of 2011 and $52 million in the first quarter of 2012. Both decreases primarily reflect lower seed capital gains.

Net interest revenue was $52 million in the second quarter of 2012 compared with $48 million in the second quarter of 2011 and $55 million in the first quarter of 2012. The year-over-year increase primarily resulted from higher average loans and deposits partially offset by tighter spreads. The sequential decrease reflects tighter spreads and lower deposit balances, partially offset by higher average loans. Average loans increased 13% year-over-year and 4% sequentially; average deposits increased 25% year-over-year and decreased 2% sequentially.

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Noninterest expense (excluding amortization of intangible assets) was $642 million in the second quarter of 2012 compared with $641 million in the second quarter of 2011 and $619 million in the first quarter of 2012. Year-over-year, noninterest expense was unchanged. The sequential increase primarily resulted from higher incentive expense driven by an increase in performance fees, as well as higher business development and distribution and servicing expenses.

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

Income before taxes totaled $463 million in the first six months of 2012 compared with $453 million in the first six months of 2011. Income before taxes (excluding intangible amortization) was $559 million in the first six months of 2012 compared with $561 million in the first six months of 2011. Fee and other revenue decreased $17 million compared to the first six months of 2011, primarily due to higher money market fee waivers and lower equity market values, partially offset by higher performance fees and net new business. Net interest revenue increased $7 million compared to the first six months of 2011 primarily as a result of higher average loans and deposits, partially offset by narrower spreads. Noninterest expense (excluding intangible amortization) decreased $7 million compared to first six months of 2011, primarily due to lower distribution and servicing expenses driven by higher money market fee waivers.

Investment Services business

						2Q12 vs.		Year-to-date		YTD12 vs.
(dollar amounts in millions, unless otherwise noted)	2Q11	3Q11	4Q11	1Q12	**2Q12**	**2Q11**	**1Q12**	**2012**	2011	**YTD11**
Revenue:										
Investment services fees:										
Asset servicing	$ 943	$ 894	$ 858	$ 915	**$ 920**	**(2)%**	**1%**	**$ 1,835**	$ 1,833	-%
Issuer services	314	401	245	251	**275**	**(12)**	**10**	**526**	606	(13)
Clearing services	292	297	278	303	**309**	**6**	**2**	**612**	584	5
Treasury services	134	132	133	136	**132**	**(1)**	**(3)**	**268**	267	-
Total investment services fees	1,683	1,724	1,514	1,605	**1,636**	**(3)**	**2**	**3,241**	3,290	(1)
Foreign exchange and other trading revenue	203	236	196	176	**179**	**(12)**	**2**	**355**	412	(14)
Other *(a)*	81	68	71	71	**66**	**(19)**	**(7)**	**137**	154	(11)
Total fee and other revenue *(a)*	1,967	2,028	1,781	1,852	**1,881**	**(4)**	**2**	**3,733**	3,856	(3)
Net interest revenue	649	661	634	642	**607**	**(6)**	**(5)**	**1,249**	1,270	(2)
Total revenue	2,616	2,689	2,415	2,494	**2,488**	**(5)**	**-**	**4,982**	5,126	(3)
Provision for credit losses	-	-	-	16	**(14)**	**N/M**	**N/M**	**2**	-	N/M
Noninterest expense (ex. amortization of intangible assets)	1,777	1,849	1,706	1,779	**2,097**	**18**	**18**	**3,876**	3,479	11
Income before taxes (ex. amortization of intangible assets)	839	840	709	699	**405**	**(52)**	**(42)**	**1,104**	1,647	(33)
Amortization of intangible assets	50	49	50	48	**49**	**(2)**	**2**	**97**	100	(3)
Income before taxes	$ 789	$ 791	$ 659	$ 651	**$ 356**	**(55)%**	**(45)%**	**$ 1,007**	$ 1,547	(35)%
Pre-tax operating margin	30%	29%	27%	26%	**14%**			**20%**	30%	
Pre-tax operating margin (ex. amortization of intangible assets)	32%	31%	29%	28%	**16%**			**22%**	32%	
Investment services fees as a percentage of noninterest expense *(b)*	96%	98%	90%	94%	**94%**			**94%**	96%	
Securities lending revenue	$ 52	$ 32	$ 35	$ 39	**$ 48**	**(8)%**	**23%**	**$ 87**	$ 79	10%
<u>**Metrics:**</u>										
Market value of assets under custody and administration at period-end *(in trillions) (c)*	$ 26.3	$ 25.9	$ 25.8	$ 26.6	**$ 27.1**	**3%**	**2%**			
Market value of securities on loan at period-end *(in billions) (d)*	$ 273	$ 250	$ 269	$ 265	**$ 275**	**1%**	**4%**			
Average loans	$ 22,891	$ 22,879	$ 26,804	$ 25,902	**$ 24,981**	**9%**	**(4)%**	**$ 25,441**	$ 21,729	17%
Average deposits	$ 153,863	$ 181,848	$ 188,539	$ 175,055	**$ 172,435**	**12%**	**(1)%**	**$ 173,745**	$ 146,643	18%
<u>Asset servicing:</u>										
New business wins (AUC) *(in billions)*	$ 196	$ 96	$ 431	$ 453	**$ 314**					

Corporate Trust:							
Total debt serviced *(in trillions)*	$ 11.8	$ 11.9	$ 11.8	$ 11.9	**$ 11.5**	**(3)%**	**(3)%**
Number of deals administered	133,262	134,843	133,850	133,319	**133,301**	**-%**	**-%**
Depositary Receipts:							
Number of sponsored programs	1,386	1,384	1,389	1,391	**1,393**	**1%**	**-%**
Clearing services:							
DARTS volume *(in thousands)*	196.5	207.7	178.7	196.6	**189.8**	**(3)%**	**(3)%**
Average active clearing accounts U.S. *(in thousands)*	5,486	5,503	5,429	5,413	**5,427**	**(1)%**	**-%**
Average long-term mutual fund assets *(U.S. platform)*	$ 306,193	$ 287,573	$ 287,562	$ 306,212	**$ 306,973**	**-%**	**-%**
Average margin loans	$ 7,506	$ 7,351	$ 7,548	$ 7,900	**$ 8,231**	**10%**	**4%**
Broker-Dealer:							
Average collateral management balances *(in billions)*	$ 1,845	$ 1,872	$ 1,866	$ 1,929	**$ 1,997**	**8%**	**4%**
Treasury services:							
Global payments transaction volume *(in thousands)*	10,944	11,088	10,856	10,838	**11,117**	**2%**	**3%**

(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 $1.1 trillion at June 30, 2011, $1.0 trillion at Sept. 30, 2011, $1.1 trillion at Dec. 31, 2011, $1.2 trillion at both March 31, 2012 and June 30, 2012.

(d) Represents the total amount of securities on loan managed by the Investment Services business.

Business description

Our Investment Services business provides global custody and related services, broker-dealer 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 $27.1 trillion of assets under custody and administration at June 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 a leading custodian in the UK and service 20% of UK pensions. 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 42% 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. We currently service approximately $1.4 trillion of the $1.8 trillion tri-party repo market in the U.S.

In connection with our role as a clearing and custody bank for the tri-party repurchase (repo) transaction market, we work with dealers who use repos to finance their securities by selling them to counterparties, agreeing to buy them back at a later date. In tri-party repos, a clearing and custody bank such as BNY Mellon acts as the intermediary between a dealer and its counterparty in settling the transaction providing valuation and other services as well as extending secured intra-day credit to the dealers. BNY Mellon currently has approximately 80% of the market share and is working to implement recommendations by the U.S. Tri-Party Repo Infrastructure Reform Task Force to achieve the practical elimination of secured intra-day credit.

BNY Mellon has taken several steps in that regard, including the reduction of the length of time for the majority of the intra-day credit exposure, the implementation of auto substitution of collateral and the introduction of three-way trade confirmations.

On June 27, 2012, we announced the formation of Global Collateral Services, which serves broker-dealers and institutional investors facing rapidly expanding collateral management needs as a result of current and emerging regulatory and market requirements. Global Collateral Services brings together BNY Mellon s global capabilities in segregating, optimizing, financing and transforming collateral on behalf of clients, including its market leading broker-dealer collateral management, securities lending, collateral financing, liquidity and derivatives services teams.

In securities lending, we are one of the largest lenders of U.S. Treasury securities and depositary receipts and service a lending pool of approximately $3 trillion in 28 markets. We are one of the largest global providers of performance and risk analytics reporting, with $9.6 trillion in assets under measurement.

BNY Mellon is the leading provider of corporate trust services for all major conventional and structured finance debt categories, and a leading provider of specialty services. We service $11.5 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 June 30, 2012, acting in partnership with leading companies from more than 65 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 fourth largest CHIPS payment processor, processing about 170,000 global payments daily totaling an average of $1.4 trillion.

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 individual and institutional investors 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 June 30, 2012 were a record $27.1 trillion, an increase of 3% from $26.3 trillion at June 30, 2011 and 2% from $26.6 trillion at March 31, 2012. Both increases were driven by net new business, partially offset by lower equity market values. Assets under custody and administration were comprised of 31% equity securities and 69% fixed income securities at June 30, 2012 and June 30, 2011 and 32% equity securities and 68% fixed income securities at March 31, 2012. Assets under custody and administration at June 30, 2012 consisted of assets related to custody, mutual funds and corporate trust businesses of $21.5 trillion, broker-dealer service assets of $3.6 trillion, and all other assets of $2.0 trillion.

Income before taxes was $356 million in the second quarter of 2012 compared with $789 million in the second quarter of 2011 and $651 million in the first quarter of 2012. Income before taxes, excluding

amortization of intangible assets, was $405 million in the second quarter of 2012 compared with $839 million in the second quarter of 2011 and $699 million in the first quarter of 2012. The decreases from both prior periods primarily reflect higher litigation expense and lower equity market values, partially offset by higher Clearing Services revenue and net new business.

Revenue generated in the Investment Services businesses includes 36% from non-U.S. sources in the second quarter of 2012, 39% in the second quarter of 2011 and 36% in the first quarter of 2012.

Investment services fees decreased $47 million, or 3%, compared with the second quarter of 2011 and increased $31 million, or 2% (unannualized), sequentially. The fluctuations were driven by the following:

- Asset servicing revenue (global custody, broker-dealer services and alternative investment services) was $920 million in the second quarter of 2012 compared with $943 million in the second quarter of 2011 and $915 million in the first quarter of 2012. The year-over year decrease primarily reflects lower equity market values and securities lending revenue, partially offset by net new business. The sequential increase was primarily driven by net new business and seasonally higher securities lending revenue, partially offset by lower equity market values.
- Issuer services fees (Corporate Trust and Depositary Receipts) were $275 million in the second quarter of 2012 compared with $314 million in the second quarter of 2011 and $251 million in the first quarter of 2012. The year-over-year decrease primarily resulted from lower Depositary Receipts revenue, lower money market related fees and lower trust fees related to the weakness in structured products in Corporate Trust. The increase sequentially resulted from higher Depositary Receipts revenue as well as money market related fees in Corporate Trust.
- Clearing services fees (Pershing) were $309 million in the second quarter of 2012 compared with $292 million in the second quarter of 2011 and $303 million in the first quarter of 2012. The year-over-year increase was driven by higher mutual fund fees, partially offset by the impact of lower DARTS volume and higher money market fee waivers. The sequential increase primarily reflects higher mutual fund

fees and lower money market fee waivers, partially offset by the impact of lower DARTS volume.
Foreign exchange and other trading revenue was $179 million in the second quarter of 2012 compared with $203 million in the second quarter of 2011 and $176 million in the first quarter of 2012. The year-over-year decrease reflects lower volatility and volumes, while the sequential increase primarily resulted from higher volumes.

Net interest revenue was $607 million in the second quarter of 2012 compared with $649 million in the second quarter of 2011 and $642 million in the first quarter of 2012. The year-over-year decrease reflects lower spreads and accretion, partially offset by higher average deposits. The sequential decrease reflects lower spreads, average interest-earning deposits and accretion.

The provision for credit losses was a credit of $14 million in the second quarter of 2012 primarily resulting from a decline in the expected loss related to a broker-dealer customer that previously filed for bankruptcy.

Noninterest expense (excluding amortization of intangible assets) was $2.1 billion in the second quarter of 2012 compared with $1.8 billion in both the second quarter of 2011 and first quarter of 2012. Both increases primarily reflect higher litigation expense and a deposit levy imposed on Belgian banks, including our Belgian bank subsidiary.

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

Income before taxes totaled $1.0 billion in the first six months of 2012 compared with $1.5 billion in the first six months of 2011. Excluding intangible amortization, income before taxes decreased $543 million. Fee and other revenue decreased $123 million reflecting lower Depositary Receipts revenue and Corporate Trust fees and lower foreign exchange revenue due primarily to a decline in volatility and volumes, partially offset by higher Clearing Services revenue and net new business. The $21 million decrease in net interest revenue was primarily due to lower spreads and accretion, partially offset by higher average deposits and loans. Noninterest expense (excluding intangible amortization) increased $397 million primarily due to higher litigation expenses.

Other segment

						Year-to-date	
(dollars in millions)	2Q11	3Q11	4Q11	1Q12	**2Q12**	**2012**	2011
Revenue:							
Fee and other revenue	$ 269	$ 121	$ 240	$ 166	**$ 112**	**$ 278**	$ 416
Net interest revenue	34	63	91	68	**75**	**143**	59
Total revenue	303	184	331	234	**187**	**421**	475
Provision for credit losses	(1)	(22)	23	(11)	**(5)**	**(16)**	(1)
Noninterest expense (ex. amortization of intangible assets, M&I and restructuring charges)	272	182	245	253	**189**	**442**	521
Income (loss) before taxes (ex. amortization of intangible assets, M&I and restructuring charges)	32	24	63	(8)	**3**	**(5)**	(45)
Amortization of intangible assets	5	4	3	-	**-**	**-**	8
M&I and restructuring charges	18	12	139	9	**22**	**31**	29
Income (loss) before taxes	$ 9	$ 8	$ (79)	$ (17)	**$ (19)**	**$ (36)**	$ (82)
Average loans and leases	$ 10,553	$ 10,652	$ 10,223	$ 9,877	**$ 10,248**	**$ 10,062**	$ 10,868

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

Review of financial results

Income before taxes was a loss of $19 million in the second quarter of 2012 compared with income of $9 million in the second quarter of 2011 and a loss of $17 million in the first quarter of 2012.

Total fee and other revenue decreased $157 million compared with the second quarter of 2011 and $54 million compared with the first quarter of 2012. The

year-over-year decrease reflects lower asset-related gains, the impact of the sale of the Shareowner Services business and lower equity investment revenue. The sequential decrease was driven by lower leasing gains and equity investment revenue and a lower credit valuation adjustment.

Noninterest expense (excluding amortization of intangible assets and M&I and restructuring charges) decreased $83 million compared with the second quarter of 2011 and $64 million compared with the first quarter of 2012. The decrease compared with the second quarter of 2011 resulted from the impact of the sale of the Shareowner Services business and lower incentive expense. The decrease compared with the first quarter of 2012 reflects lower incentives and benefits expense.

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

Income before taxes in the Other segment was a loss of $36 million in the first six months of 2012 compared with a loss of $82 million in the first six months of 2011. Total revenue decreased $54 million primarily reflecting 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 $79 million, reflecting the impact of the sale of the Shareowner Services business, partially offset by higher benefits, professional, legal and other purchased services expenses and the costs of certain tax credits.

Critical accounting estimates

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

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

Goodwill and other intangibles

BNY Mellon s three business segments include seven reporting units for which goodwill impairment testing is performed on an annual basis, in the second quarter. In the second quarter of 2012, we performed our annual goodwill test on all seven reporting units using an income approach to estimate fair values. Estimated cash flows used in the income approach were based on management s projections as of April 1, 2012. The discount rate applied to these cash flows ranged from 10% to 12.25% and incorporated a 7% market equity risk premium. Estimated cash flows extend far into the future, and, by their nature, are difficult to estimate over such an extended time frame.

As of the date of the annual test, the fair values of six of the Company s reporting units were substantially in excess of the respective reporting units carrying value. The Asset Management reporting unit, with $7.7 billion of allocated goodwill, which is one of the two reporting units in the Investment Management segment, exceeded its carrying value by approximately 15%. For the Asset Management reporting unit, in the future, small changes in the assumptions could produce a non-cash goodwill impairment, which would have no effect on our regulatory capital ratios. In addition to the other factors and assumptions discussed beginning on page 33 of our 2011 Annual Report, certain money market fee waiver practices and changes in the level of assets under management could have an effect on Asset Management broadly, as well as the fair value of this reporting unit. See Critical accounting estimates in the 2011 Annual Report for additional information on the annual and fourth quarter 2011 interim goodwill impairment tests. See Critical accounting estimates in the

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Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 for additional information on the first quarter 2012 interim goodwill impairment test of the Asset Management business.

Consolidated balance sheet review

At June 30, 2012, total assets were $330 billion compared with $325 billion at Dec. 31, 2011. The increase in consolidated total assets resulted from an increase in client deposits. Deposits totaled $221 billion at June 30, 2012 and $219 billion at Dec. 31, 2011. At June 30, 2012, total interest-bearing deposits were 54% of total interest-earning assets. Total assets averaged $305 billion in the second quarter of 2012 compared with $278 billion in the second quarter of 2011 and $301 billion in the first quarter of 2012. The fluctuations compared with both prior periods primarily reflect an increase in the levels of client deposits. Total deposits averaged $193 billion in the second quarter of 2012, $169 billion in the second quarter of 2011 and $192 billion in the first quarter of 2012.

At June 30, 2012, we had approximately $48 billion of liquid funds and $81 billion of cash (including approximately $76 billion of overnight deposits with the Federal Reserve and other central banks) for a total of approximately $129 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 39% at June 30, 2012 compared with 42% at Dec. 31, 2011. The decreases in available funds and liquid assets to total assets were due to increased investment in securities and higher loan levels. At June 30, 2012, of our $48 billion in liquid funds, $40 billion are placed in interest-bearing deposits with large, highly rated global financial institutions with a weighted-average life to maturity of 47 days. Of the $40 billion, $7.8 billion was placed with banks in the Eurozone.

Investment securities were $93 billion, or 28% of total assets, at June 30, 2012 compared with $82 billion, or 25% of total assets, at Dec. 31, 2011. The increase primarily reflects larger investments in agency RMBS and state and political subdivision securities, as well as an improvement in the unrealized gain of our investment securities portfolio.

Loans were $45 billion, or 14% of total assets, at June 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 margin loans.

Long-term debt decreased to $19.5 billion at June 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 six months of 2012.

Total shareholders equity applicable to BNY Mellon was $34.5 billion at June 30, 2012 and $33.4 billion at Dec. 31, 2011. The increase in total shareholders equity primarily reflects earnings retention and an increase in the valuation of our investment securities portfolio, partially offset by share repurchases. Additionally, in the second quarter of 2012, we issued $500 million of non-cumulative 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 June 30, 2012, the assets and liabilities of BNY Mellon were reduced by $17 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 and Portugal

The following tables present our on- and off-balance sheet exposure in Ireland, Italy, Spain, and Portugal at June 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

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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 June 30, 2012 and Dec. 31, 2011, BNY Mellon had no exposure to Greece and no sovereign exposure to the countries disclosed below.

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.

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

On- and off-balance sheet exposure at June 30, 2012

(in millions)	**Ireland**	**Italy**	**Spain**	**Portugal**	**Total**
On-balance sheet exposure					
Gross:					
Interest-bearing deposits with banks *(a)*	$ 96	$ 192	$ 2	$ -	$ 290
Investment securities (primarily European Floating Rate Notes) *(b)*	189	137	25	-	351
Loans and leases *(c)*	324	3	5	-	332
Trading assets *(d)*	44	39	16	1	100
Total gross on-balance sheet exposure	653	371	48	1	1,073
Less:					
Collateral	77	35	7	1	120
Guarantees	-	2	1	-	3
Total collateral and guarantees	77	37	8	1	123
Total net on-balance sheet exposure	**$ 576**	**$ 334**	**$ 40**	**$**	**$ 950**
Off-balance sheet exposure					
Gross:					
Lending-related commitments *(e)*	$ 98	$ -	$ -	$ -	$ 98
Letters of credit *(f)*	74	4	14	-	92
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	**$ 825**	**$ 375**	**$ 62**	**$ 1**	**$ 1,263**
Less: Total collateral and guarantees	**167**	**37**	**22**	**1**	**227**
Total net on- and off-balance sheet exposure	**$ 658**	**$ 338**	**$ 40**	**$ -**	**$ 1,036**

(a) Interest-bearing deposits with banks represent a $130 million placement with a financial institution in Italy, a $96 million placement with an Irish subsidiary of a UK holding company and $64 million of nostro accounts related to our custody business.

(b) Represents $326 million, fair value, of residential mortgage-backed securities located in Ireland, Italy and Spain, of which 62% were investment grade, $22 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 $263 million of overdrafts primarily to Irish-domiciled investment funds resulting from our custody business, a $66 million commercial lease to an Irish company, which was fully collateralized by U.S. Treasuries and $3 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 $44 million of receivables primarily due from Irish-domiciled investment funds and $56 million of receivables due from financial institutions in Italy, Spain and Portugal. Cash collateral on the trading assets totaled $11 million in Ireland, $35 million in Italy, $7 million in Spain and $1 million in

Portugal.

(e) *Lending-related commitments represent $98 million to an insurance company, collateralized by $23 million of marketable securities.*

(f) *Represents $74 million of letters of credit extended to an insurance company in Ireland, collateralized by $67 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.*

On- and off-balance sheet exposure at Dec. 31, 2011 *(in millions)*	**Ireland**	**Italy**	**Spain**	**Portugal**	**Total**
On-balance sheet exposure					
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	March 31, 2012	2Q12 change in unrealized	**June 30, 2012**				Ratings				
(dollars in millions)	Fair value	gain/(loss)	Amortized cost	Fair value	Fair value as a % of amortized cost*(a)*	Unrealized gain/(loss)	AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+ and lower	Not rated
Agency RMBS	$ 34,538	$ 187	$ 38,598	$ 39,441	102%	$ 843	100%	-%	-%	-%	-%
U.S. Treasury securities	15,173	43	14,777	15,073	102	296	100	-	-	-	-
Sovereign debt/sovereign guaranteed *(b)*	12,171	(57)	8,782	8,935	102	153	100	-	-	-	-
Non-agency RMBS *(c)*	3,232	(72)	2,745	3,037	67	292	1	1	2	96	-
Non-agency RMBS	1,787	41	1,900	1,692	81	(208)	17	15	11	57	-
European floating rate notes *(d)*	3,405	37	4,337	4,053	92	(284)	79	15	3	3	-
Commercial MBS	3,161	(2)	2,905	3,012	104	107	82	16	2	-	-
State and political subdivisions	4,067	32	5,640	5,684	101	44	84	14	1	1	-
Foreign covered bonds *(e)*	3,207	22	3,870	3,928	101	58	99	1	-	-	-
Corporate bonds	1,696	3	1,571	1,628	104	57	17	73	9	1	-
CLO	1,118	(1)	1,025	1,013	99	(12)	100	-	-	-	-
U.S. Government agency debt	1,108	2	1,066	1,097	103	31	100	-	-	-	-
Consumer ABS	447	5	1,051	1,060	101	9	77	22	-	1	-
Other *(f)*	3,093	18	3,285	3,339	102	54	31	60	2	1	6
Total investment securities	$ 88,203*(g)*	$ 258	$ 91,552	$ 92,992*(g)*	99%	$ 1,440	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, fair value, and money market funds of $918 million, fair value, at June 30, 2012.
(g) Includes net unrealized losses on derivatives hedging securities available-for-sale of $20 million at March 31, 2012 and $417 million at June 30, 2012.

The fair value of our investment securities portfolio was $93.0 billion at June 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 and state and political subdivision securities, as well as an improvement in the unrealized gain of our investment securities. In the second quarter of 2012, we received $246 million of paydowns and sold $24 million of sub-investment grade securities.

In the second quarter of 2012, we reassessed the classification of certain Agency RMBS and reclassified $2.8 billion at fair value of our available-for-sale securities to held-to-maturity. The related unrealized pre-tax gain on these securities was $117 million at June 30, 2012.

At June 30, 2012, the total investment securities portfolio had an unrealized pre-tax gain of $1.4 billion compared with $1.2 billion at March 31, 2012. The improvement in the valuation of the investment securities portfolio was primarily

driven by a decline in market interest rates. The unrealized net of tax gain on our investment securities available-for-sale portfolio included in accumulated other comprehensive income was $784 million at June 30, 2012 compared with $654 million at March 31, 2012.

At June 30, 2012, 89% of the securities in our portfolio were rated AAA/AA- compared with 88% at March 31, 2012.

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

At June 30, 2012, we had $1.0 billion 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 4.4 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 $74 million in the

second quarter of 2012, $98 million in the second quarter of 2011 and $81 million in the first quarter of 2012.

Also, at June 30, 2012, we had $2.3 billion of net amortizable purchase premium relating to investment securities with a remaining average life of approximately 4.3 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 $118 million in the second quarter of 2012, $60 million in the second quarter of 2011 and $109 million in the first quarter of 2012.

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

Net securities gains				**Year-to-date**	
(in millions)	**2Q12**	1Q12	2Q11	**2012**	2011
U.S. Treasury	**$ 44**	$ 38	$ 41	**$ 82**	$ 41
Sovereign debt	**61**	7	-	**68**	-
FDIC-insured debt	**-**	10	-	**10**	-
Corporate bonds	**7**	2	-	**9**	-
Prime RMBS	**(1)**	(1)	-	**(2)**	9
Alt-A RMBS	**(3)**	(10)	(1)	**(13)**	4
Trust preferred	**(18)**	-	-	**(18)**	-
European floating rate notes	**(22)**	(1)	(12)	**(23)**	(15)
Subprime RMBS	**(23)**	(3)	(6)	**(26)**	(12)
Agency RMBS	**-**	-	8	**-**	8
Other	**5**	(2)	18	**3**	18
Net securities gains (losses)	**$ 50**	$ 40	$ 48	**$ 90**	$ 53

On a quarterly basis, we perform our impairment analysis using several factors, including projected loss severities and default rates. In the second quarter of 2012, this analysis resulted in approximately $67 million of credit losses primarily on subprime RMBS, European floating rate notes and trust preferred securities. 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 $13 million (pre-tax) or decreased $1 million (pre-tax) in the second quarter of 2012. See Note 4 of the Notes to Consolidated Financial Statements for the projected weighted-average default rates and loss severities.

At June 30, 2012, the investment securities portfolio includes $83 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 June 30, 2012. The unrealized loss on these securities was $284 million at June 30, 2012, an improvement of 18% compared with $347 million at Dec. 31, 2011.

European floating rate notes at June 30, 2012 *(a)*

(in millions)	RMBS	Other	Total fair value
United Kingdom	$ 1,758	$ 259	$ 2,017
Netherlands	1,476	46	1,522
Ireland	164	21	185
Italy	137	-	137
Australia	85	-	85
Germany	1	68	69
Spain	25	-	25
France	4	9	13
Total	**$ 3,650**	**$ 403**	**$ 4,053**

(a) 79% of these securities are in the AAA to AA- ratings category.

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

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Loans

Total exposure consolidated		**June 30, 2012**			Dec. 31, 2011	
		Unfunded	**Total**		Unfunded	Total
(in billions)	**Loans**	**commitments**	**exposure**	Loans	commitments	exposure
Non-margin loans:						
Financial institutions	**$ 10.5**	**$ 14.6**	**$ 25.1**	$ 11.1	$ 15.5	$ 26.6
Commercial	**1.4**	**17.3**	**18.7**	1.3	16.3	17.6
Subtotal institutional	**11.9**	**31.9**	**43.8**	12.4	31.8	44.2
Wealth management loans and mortgages	**7.9**	**1.6**	**9.5**	7.3	1.5	8.8
Commercial real estate	**1.6**	**1.9**	**3.5**	1.5	1.5	3.0
Lease financing	**2.5**	**-**	**2.5**	2.6	-	2.6
Other residential mortgages	**1.8**	**-**	**1.8**	1.9	-	1.9
Overdrafts	**5.7**	**-**	**5.7**	4.8	-	4.8
Other	**0.5**	**-**	**0.5**	0.7	-	0.7
Subtotal non-margin loans	**31.9**	**35.4**	**67.3**	31.2	34.8	66.0
Margin loans	**13.5**	**0.7**	**14.2**	12.8	0.7	13.5
Total	**$ 45.4**	**$ 36.1**	**$ 81.5**	$ 44.0	$ 35.5	$ 79.5

At June 30, 2012, total exposures were $81.5 billion, an increase of 3% from $79.5 billion at Dec. 31, 2011, primarily reflecting higher commercial exposure, overdrafts, wealth management loans and mortgages and commercial real estate exposure, 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			**June 30, 2012**				Dec. 31, 2011	
			Total					Total
		Unfunded		**% Inv**	**% due**		Unfunded	
(dollar amounts in billions)	**Loans**	**commitments**	**exposure**	**grade**	**<1 yr**	Loans	commitments	exposure
Banks	**$ 5.5**	**$ 1.7**	**$ 7.2**	**81%**	**95%**	$ 6.3	$ 1.9	$ 8.2
Securities industry	**3.5**	**2.0**	**5.5**	**92**	**95**	3.8	2.6	6.4
Insurance	**0.2**	**4.4**	**4.6**	**98**	**30**	0.1	4.6	4.7
Asset managers	**1.1**	**3.5**	**4.6**	**99**	**76**	0.8	3.2	4.0
Government	**-**	**1.7**	**1.7**	**95**	**20**	-	1.6	1.6
Other	**0.2**	**1.3**	**1.5**	**96**	**57**	0.1	1.6	1.7
Total	**$ 10.5**	**$ 14.6**	**$ 25.1**	**92%**	**72%**	$ 11.1	$ 15.5	$ 26.6

The financial institutions portfolio exposure was $25.1 billion at June 30, 2012 compared with $26.6 billion at Dec. 31, 2011. The decrease primarily reflects lower exposure to banks and broker-dealers, partially offset by increased exposure to asset managers.

Financial institution exposures are high-quality, with 92% meeting the investment grade equivalent criteria of our rating system at June 30, 2012. These exposures are generally short-term. Of these exposures, 72% expire within one year, and 34% expire within 90 days. In addition, 42% of the financial institution exposure is secured. For example, securities industry

and asset managers 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 exposure to banks is predominantly to investment grade counterparties in developed countries. Noninvestment grade bank exposures are

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short term in nature supporting our global trade finance and U.S. dollar-clearing businesses in developing countries.

The asset manager portfolio exposures are high- quality, with 99% meeting our investment grade equivalent ratings criteria as of June 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	**June 30, 2012**					Dec. 31, 2011		
			Total					Total
(dollar amounts in billions)	**Loans**	**Unfunded commitments**	**exposure**	**% Inv grade**	**% due <1 yr**	Loans	Unfunded commitments	exposure
Services and other	**$ 0.7**	**$ 5.4**	**$ 6.1**	**92%**	**21%**	$ 0.5	$ 4.5	$ 5.0
Manufacturing	**0.3**	**5.4**	**5.7**	**90**	**10**	0.3	5.7	6.0
Energy and utilities	**0.3**	**4.9**	**5.2**	**97**	**6**	0.3	4.8	5.1
Media and telecom	**0.1**	**1.6**	**1.7**	**90**	**4**	0.2	1.3	1.5
Total	**$ 1.4**	**$ 17.3**	**$ 18.7**	**93%**	**12%**	$ 1.3	$ 16.3	$ 17.6

The commercial portfolio exposure increased 6% to $18.7 billion at June 30, 2012 from $17.6 billion at Dec. 31, 2011, primarily reflecting an increase in exposure in the services and other portfolio.

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	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	**June 30, 2012**
Financial institutions	91%	92%	93%	92%	**92%**
Commercial	91%	91%	91%	92%	**93%**

Our credit strategy is to focus on investment grade names to support cross-selling opportunities, avoid single name/industry concentrations and exit high-risk portfolios. 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 92% of our financial institutions portfolio and 93% of our commercial portfolio rated as investment grade at June 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 June 30, 2012.

At June 30, 2012, the private wealth mortgage portfolio was comprised of the following geographic concentrations: New York 23%; California 18%; Massachusetts 17%; Florida 8%; and other 34%.

Commercial real estate

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 $3.5 billion at June 30, 2012 and $3.0 billion at Dec. 31, 2011.

At June 30, 2012, 58% of our commercial real estate portfolio was secured. The secured portfolio is diverse by project type, with 60% secured by residential buildings, 19% secured by office buildings, 11% secured by retail properties and 10% 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 June 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 $188 million of airline exposures at June 30, 2012 compared with $2.6 billion of leasing exposures, including $197 million of airline exposures, at Dec. 31, 2011. At June 30, 2012, approximately 88% of the leasing exposure was investment grade.

At June 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 June 30, 2012, our exposure to the airline industry consisted of $68 million to major U.S. carriers, $105 million to foreign airlines and $15 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 and extremely high debt levels, 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 $1.8 billion at June 30, 2012 compared with $1.9 billion at Dec. 31, 2011. Included in this portfolio at June 30, 2012 are $542 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 June 30, 2012, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 75% at origination, and 29% 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 June 30, 2012, we had less than $15 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

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 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

(dollar amounts in millions)	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Margin loans	**$ 13,462**	$ 13,144	$ 12,760	$ 9,520
Non-margin loans	**31,969**	29,884	31,219	32,627
Total loans	**$ 45,431**	$ 43,028	$ 43,979	$ 42,147
Beginning balance of allowance for credit losses	**$ 494**	$ 497	$ 498	$ 554
Provision for credit losses	**(19)**	5	23	
Net (charge-offs) recoveries:				
Other residential mortgages	**(5)**	(8)	(14)	(9)
Commercial	**1**			(3)
Foreign			(2)	(6)
Commercial real estate			(1)	(1)
Financial institutions	**(4)**		(7)	
Net (charge-offs)	**$ (8)**	$ (8)	$ (24)	$ (19)
Ending balance of allowance for credit losses	**$ 467**	$ 494	$ 497	$ 535
Allowance for loan losses	**$ 362**	$ 386	$ 394	$ 441
Allowance for lending-related commitments	**$ 105**	$ 108	$ 103	$ 94
Allowance for loan losses as a percentage of total loans	**0.80%**	0.90%	0.90%	1.05%
Allowance for loan losses as a percentage of non-margin loans	**1.13%**	1.29%	1.26%	1.35%
Total allowance for credit losses as a percentage .of total loans	**1.03%**	1.15%	1.13%	1.27%
Total allowance for credit losses as a percentage of non-margin loans	**1.46%**	1.65%	1.59%	1.64%

Net charge-offs were $8 million in the second quarter of 2012, $19 million in the second quarter of 2011, and $8 million in the first quarter of 2012. Net charge-offs in the second quarter of 2012 were primarily driven by the financial institution and other residential mortgages portfolios. In the first quarter of 2012, net charge-offs were driven by the other residential mortgage portfolio. Net charge offs in the second quarter of 2011 were driven by the other residential mortgage and foreign portfolios.

The provision for credit losses was a credit of $19 million in the second quarter of 2012 primarily

resulting 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. There was no provision in the second quarter of 2011 and a provision of $5 million in the first quarter of 2012. We anticipate the quarterly provision for credit losses to be approximately $0 to $15 million in the third quarter of 2012.

The total allowance for credit losses was $467 million at June 30, 2012, a decrease of $30 million compared with Dec. 31, 2011 and $68 million compared with June 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, as well as improvements in the mortgage portfolio. The decrease compared with June 30, 2011 primarily resulted from improvements in the mortgage portfolio.

The ratio of the total allowance for credit losses to non-margin loans was 1.46% at June 30, 2012, 1.59% at Dec. 31, 2011 and 1.64% at June 30, 2011. The ratio of the allowance for loan losses to non-margin loans was 1.13% at June 30, 2012, 1.26% at Dec. 31, 2011 and 1.35% at June 30, 2011. The decrease in these ratios at June 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 $13.5 billion of secured margin loans on our balance sheet at June 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. Commercial loans over $1 million are individually analyzed before being assigned a credit rating. We also apply this technique to our lease financing and wealth management portfolios.

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 to our portfolio	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Other residential mortgages	**33%**	33%	31%	37%
Commercial	**22**	20	18	18
Lease financing	**12**	12	13	17
Foreign	**12**	10	12	12
Financial institutions	**8**	11	13	5
Commercial real estate	**7**	7	7	5
Wealth management *(a)*	**6**	7	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 $58 million, while if each credit were rated one grade worse, the allowance would have increased by $91 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by $40 million, while if the loss given default were one rating better, the allowance would have decreased by $34 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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Nonperforming assets

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

Nonperforming assets

(dollar amounts in millions)	**June 30, 2012**	March 31, 2012	Dec. 31, 2011
Nonperforming loans:			
Other residential mortgages	**$ 177**	$ 188	$ 203
Wealth management	**35**	35	32
Commercial	**31**	32	21
Commercial real estate	**30**	39	40
Foreign	**9**	10	10
Financial institutions	**3**	14	23
Total nonperforming loans	**285**	318	329
Other assets owned	**9**	13	12
Total nonperforming assets *(a)*	**$ 294**	$ 331	$ 341
Nonperforming assets ratio	**0.65%**	0.77%	0.78%
Nonperforming assets ratio, excluding margin loans	**0.92**	1.11	1.09
Allowance for loan losses/nonperforming loans	**127.0**	121.4	119.8
Allowance for loan losses/nonperforming assets	**123.1**	116.6	115.5
Total allowance for credit losses/nonperforming loans	**163.9**	155.3	151.1
Total allowance for credit losses/nonperforming assets	158.8	149.2	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 $155 million at June 30, 2012, $180 million at March 31, 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

(in millions)	**June 30, 2012**	March 31, 2012	Dec. 31, 2011
Balance at beginning of period	**$ 331**	$ 341	$ 344
Additions	**15**	36	69
Return to accrual status	**(6)**	(13)	(8)
Net charge-offs	**(11)**	(8)	(24)
Paydowns/sales	**(30)**	(22)	(37)
Net change in other real estate owned	**(5)**	(3)	(3)
Balance at end of period	**$ 294**	$ 331	$ 341

Nonperforming assets were $294 million at June 30, 2012, a decrease of $37 million compared with March 31, 2012. The decrease primarily resulted from paydowns/sales primarily in the residential mortgage, commercial real estate and financial institutions portfolios, net charge-offs of residential mortgage and financial institutions loans 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 $221.1 billion at June 30, 2012 compared with $219.1 billion at Dec. 31, 2011. The slight increase reflects higher foreign and domestic interest-bearing deposits primarily offset by lower noninterest-bearing deposits.

Noninterest-bearing deposits were $76.9 billion at June 30, 2012 compared with $95.3 billion at Dec. 31, 2011. Interest-bearing deposits were $144.2 billion at June 30, 2012 compared with $123.8 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

	Quarter ended		
(dollar amounts in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011
Maximum daily balance during the quarter	**$ 21,818**	$ 15,636	$ 21,005
Average daily balance	**$ 11,254**	$ 8,584	$ 10,894
Weighted-average rate during the quarter	**0.01%**	(0.02)%	0.06%
Ending balance	**$ 9,162**	$ 8,285	$ 7,572
Weighted-average rate at period end	**(0.03)%**	(0.03)%	0.03%

Federal funds purchased and securities sold under repurchase agreements were $9.2 billion at June 30, 2012, $8.3 billion at March 31, 2012 and $7.6 billion at June 30, 2011. Average federal funds purchased and securities sold under repurchase agreements were $11.3 billion in the second quarter of 2012, $8.6 billion in the first quarter of 2012 and $10.9 billion in the second quarter of 2011. The higher average federal funds purchased and securities sold under repurchase agreements in the second quarter of 2012 was primarily a function of attractive overnight rate opportunities. The maximum daily balance in the second quarter of 2012 was $21.8 billion and resulted from the same attractive overnight borrowing opportunities. The weighted-average rates in the second quarter of 2012, the first quarter of 2012 and the second quarter of 2011, 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	**Quarter ended**		
(dollar amounts in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011
Maximum daily balance during the quarter	**$ 15,812**	$ 14,176	$ 12,194
Average daily balance	**$ 13,255**	$ 13,123	$ 11,031
Weighted-average rate during the quarter *(a)*	**0.10%**	0.11%	0.09%
Ending balance	**$ 13,305**	$ 12,959	$ 11,512
Weighted-average rate at period end	**0.10%**	0.12%	0.10%

(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 $7,895 million in the second quarter of 2012, $7,555 million in the first quarter of 2012 and $6,843 million in the second 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 $13.3 billion at June 30, 2012, $13.0 billion at March 31, 2012 and $11.5 billion at June 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	**Quarter ended**		
(dollar amounts in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011
Maximum daily balance during the quarter	**$ 2,547**	$ 1,126	$ 101
Average daily balance	**$ 1,436**	$ 67	$ 24
Weighted-average rate during the quarter	**0.29%**	0.08%	0.03%
Ending balance	**$ 1,564**	$ 1,070	$ 36
Weighted-average rate at period end	**0.14%**	0.11%	0.03%

Commercial paper outstanding was $1.6 billion at June 30, 2012, $1.1 billion at March 31, 2012 and $36 million at June 30, 2011. The increase compared with both prior periods was driven by attractive short-term borrowing opportunities and Parent funding requirements. Average commercial paper outstanding was $1.4 billion in the second quarter of 2012, $67 million in the first quarter of 2012 and $24 million in the second quarter of 2011. 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	**Quarter ended**		
(dollar amounts in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011
Maximum daily balance during the quarter	**$ 2,795**	$ 5,506	$ 2,959
Average daily balance	**$ 1,114**	$ 2,512	$ 1,853
Weighted-average rate during the quarter	**1.87%**	0.81%	2.09%
Ending balance	**$ 1,374**	$ 2,062	$ 2,337
Weighted-average rate at period end	**2.75%**	1.13%	2.46%

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

funds were $1.4 billion at June 30, 2012, $2.1 billion at March 31, 2012 and $2.3 billion at June 30, 2011. The decrease compared with both prior periods reflects a change in the source of funding for the borrowing under lines of credit by 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.

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 June 30, 2012.

We also perform stress tests to verify sufficient funding capacity is accessible under multiple stress scenarios.

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 June 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	**June 30,**	Dec. 31,			Average		
(in millions)	**2012**	2011	**2Q12**	**1Q12**	2Q11	**YTD12**	YTD11
Available funds:							
Liquid funds:							
Interest-bearing deposits with banks	**$ 39,743**	$ 36,321	$ 38,474	**$ 35,095**	$ 59,291	**$ 36,784**	$ 58,468
Federal funds sold and securities purchased under resale agreements	**8,543**	4,510	5,493	**5,174**	4,577	**5,333**	4,546
Total liquid funds	**48,286**	40,831	43,967	**40,269**	63,868	**42,117**	63,014
Cash and due from banks	**4,522**	4,175	4,412	**4,271**	4,335	**4,341**	4,215
Interest-bearing deposits with the Federal Reserve and other central banks	**76,243**	90,243	57,904	**63,526**	34,068	**60,715**	27,255
Total available funds	**$ 129,051**	$ 135,249	$ 106,283	**$ 108,066**	$ 102,271	**$ 107,173**	$ 94,484
Total available funds as a percentage of total assets	**39%**	42%	35%	**36%**	37%	**35%**	35%

On an average basis for the first six months of 2012 and the first six months of 2011, non-core sources of funds, such as money market rate accounts, federal funds purchased, trading liabilities and other borrowings, were $20.0 billion and $16.8 billion, respectively. The increase primarily reflects higher levels of money market rate accounts, federal funds purchased and other borrowings, partially offset by lower levels of trading liabilities. Average foreign deposits, primarily from our European-based Investment Services business, were $87.4 billion and $81.4 billion for the first six months of 2012 and the first six months of 2011. The increase primarily reflects growth in client deposits. Domestic savings and time deposits averaged $34.1 billion for the first six months of 2012 compared with $35.0 billion for the first six months of 2011. The decrease reflects a decline in client savings deposits.

Average payables to customers and broker-dealers were $7.7 billion for the first six months of 2012 and $6.8 billion for the first six months of 2011. Long-term debt averaged $20.3 billion in the first six months of 2012 and $17.2 billion in the first six 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 $64.7 billion in the first six months of 2012 from $40.8 billion in the first six 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 $3.9 billion, subsequent to June 30, 2012, without the need for a regulatory waiver. In addition, at June 30, 2012, non-bank subsidiaries of the Parent had liquid assets of approximately $1.4 billion.

In the second 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, 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 June 30, 2012, the Parent s quarterly average commercial paper borrowings were $1.4 billion compared with $24 million for the quarter ended June 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 $1.6 billion at June 30, 2012 and $10 million at Dec. 31, 2011. The Parent had cash of $5.1 billion at June 30, 2012 compared with $4.6 billion at Dec. 31, 2011. Net of commercial paper outstanding, the Parent s cash position at June 30, 2012 decreased $1.0 billion 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 second quarter of 2012, we repurchased 12.2 million common shares in the open market at an average price of $23.38 per share for a total of $286 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 June 30, 2012, the Parent was in compliance with its liquidity policy.

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 June 30, 2012, were as follows:

Debt ratings at June 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 & 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 June 30, 2012, S&P, Fitch and DBRS reaffirmed all of our debt ratings.

Long-term debt decreased to $19.5 billion at June 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.

The Parent has $1.8 billion of long-term debt that will mature in the remainder of 2012 and has the option to call $82 million of subordinated debt in the remainder of 2012, which it may call and refinance if market conditions are favorable.

At June 30, 2012, we had approximately $1.2 billion of trust preferred securities outstanding that will be impacted by the Dodd-Frank Act. These securities currently qualify as Tier 1 capital. The $1.2 billion includes $850 million of trust preferred securities that are currently callable. Any decision to call these

securities will be based on interest rates, the availability of cash and capital, and regulatory conditions, as well as the implementation of the Dodd-Frank Act, which will disqualify these trust preferred securities from being treated as Tier 1 capital over a three-year period beginning Jan. 1, 2013.

Our outstanding trust preferred securities include $500 million of Fixed-to-Floating Rate Normal Preferred Capital Securities (PCS) issued by Mellon Capital IV. As contractually obligated under the terms of the PCS, a remarketing occurred in May 2012. In this remarketing, junior subordinated notes issued by BNY Mellon and held by Mellon Capital IV were sold to third party investors and then exchanged for BNY Mellon s senior notes, which were sold in a public offering. The proceeds of the sale of the senior notes were used to fund the purchase by Mellon Capital IV of $500 million of BNY Mellon s Series A non-cumulative perpetual preferred stock, which was issued on June 20, 2012. As a

result of the remarketing, the PCS are expected to pay distributions at a rate per annum equal to the greater of (i) three-month LIBOR plus 0.565% for the related distribution period; and (ii) 4.000%. The non-cumulative perpetual preferred stock qualifies as Tier 1 capital under the recently released NPRs.

The double leverage ratio is the ratio of investment in subsidiaries divided by our consolidated equity, which includes our non-cumulative perpetual preferred stock, plus trust preferred securities. Our double leverage ratio was 108.5% at June 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. Pershing has another committed line of credit for $125 million extended by one financial institution that matures in September 2012. There were no borrowings under either of these lines of credit during the second 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 $15 million, in aggregate, during the second 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 $40 million, in aggregate, during the second quarter of 2012.

Statement of cash flows

Cash provided by operating activities was $374 million for the six months ended June 30, 2012 compared with $997 million for the six months ended June 30, 2011. In the first six months of 2012 and 2011, earnings, partially offset by changes in accruals and other balances, were a significant source of funds.

Through June 30, 2012, cash used for investing activities was $5.8 billion compared with $52.0 billion in the first six months of 2011. In the first six months of 2012, purchases of securities, changes in federal funds sold and securities purchased under resale agreements 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 six months of 2011, increases in interest-bearing deposits with banks, and 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 six months of 2012, cash provided by financing activities was $5.8 billion compared with $52.9 billion in the first six months of 2011. In the first six months of 2012, increases in federal funds purchased and securities sold under repurchase agreements, deposits, commercial paper and the issuance of long-term debt were significant sources of funds, partially offset by repayment of long-term debt, a decrease in other borrowed funds and treasury stock repurchases. In the first six months of 2011, an increase in deposits was a significant source of funds partially offset by a decrease in other borrowed funds.

Capital

Capital data

(dollar amounts in millions except per share amounts; common shares in thousands)	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Average common equity to average assets	**11.2%**	11.2%	10.7%	12.0%
At period end:				
BNY Mellon shareholders equity to total assets ratio	**10.5%**	11.3%	10.3%	11.1%
BNY Mellon common shareholders equity to total assets ratio	**10.3%**	11.3%	10.3%	11.1%
Total BNY Mellon shareholders equity GAAP	**$ 34,533**	$ 34,000	$ 33,417	$ 33,851
Total BNY Mellon common shareholders equity GAAP	**$ 34,033**	$ 34,000	$ 33,417	$ 33,851
Tangible BNY Mellon common shareholders equity Non-GAAP *(a)*	**$ 13,544**	$ 13,326	$ 12,787	$ 12,671
Book value per common share GAAP	**$ 28.81**	$ 28.51	$ 27.62	$ 27.46
Tangible book value per common share Non-GAAP *(a)*	**$ 11.47**	$ 11.17	$ 10.57	$ 10.28
Closing common stock price per share	**$ 21.95**	$ 24.13	$ 19.91	$ 25.62
Market capitalization	**$ 25,929**	$ 28,780	$ 24,085	$ 31,582
Common shares outstanding	**1,181,298**	1,192,716	1,209,675	1,232,691
Cash dividends per common share	**$ 0.13**	$ 0.13	$ 0.13	$ 0.13
Common dividend yield *(annualized)*	**2.4%**	2.2%	2.6%	2.0%
Common dividend payout ratio	**33%**	25%	31%	22%

(a) See Supplemental information Explanation of Non-GAAP financial measures beginning on page 50 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 $500 million of non-cumulative perpetual preferred stock and the increased value of our investment securities portfolio, partially offset by share repurchases.

During the second quarter of 2012, we repurchased 12.2 million shares in the open market at an average price of $23.38 per share for a total of $286 million. In March 2012, BNY Mellon received confirmation that the Federal Reserve did not object to our 2012 comprehensive capital plan. Our 2012 capital plan includes the repurchase of up to $1.16 billion of outstanding common stock and the continuation of the 13 cents per share quarterly cash dividend.

The unrealized net of tax gain on our available-for-sale securities portfolio recorded in accumulated other comprehensive income was $784 million at June 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 market interest rates.

On July 18, 2012, the Board of Directors declared a quarterly common stock dividend of $0.13 per common share. This cash dividend was paid on Aug. 7, 2012, to shareholders of record as of the close of business on July 30, 2012.

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 June 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	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Consolidated capital ratios:						
Estimated Basel III Tier 1 common equity ratio Non-GAAP *(a)(b)*	N/A	N/A	**8.7%**	N/A	N/A	N/A
Tangible BNY Mellon shareholders equity to tangible assets of operations ratio Non-GAAP *(b)*	N/A	N/A	**6.1%**	6.5%	6.4%	6.0%
Determined under Basel I-based guidelines *(c)*:						
Tier 1 common equity to risk-weighted assets ratio Non-GAAP *(b)*	N/A	N/A	**13.2%**	13.9%	13.4%	12.6%
Tier 1 capital	6%	N/A	**14.7**	15.6	15.0	14.1
Total capital	10	N/A	**16.4**	17.5	17.0	16.7
Leverage guideline	5	N/A	**5.5**	5.6	5.2	5.8
The Bank of New York Mellon capital ratios *(c)*:						
Tier 1 capital	6%	4%	**13.7%**	14.8%	14.3%	12.1%
Total capital	10	8	**14.5**	18.0	17.7	15.7
Leverage	5	3	**5.7**	5.7	5.3	5.3

(a)

The estimated Basel III Tier 1 common equity ratio at June 30, 2012 is based on the NPRs and final market risk rule released on June 7, 2012. The estimated Basel III Tier 1 common equity ratios of 7.6% at March 31, 2012, 7.1% at Dec. 31, 2011 and 6.5% at June 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 50 for a calculation of this ratio.*

(c) *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 8.7% at June 30, 2012 based on the NPRs and final market risk rule. The increase in the ratio from 7.6% at March 31, 2012, which was calculated under prior Basel III guidance and the proposed market risk rule, was primarily due to the reduction in risk-weighted assets related to the treatment of sub-investment grade securities, partially offset by the treatment of investment grade securitizations and financial institution exposure. The positive impact of the NPRs was partially offset by balance sheet growth in the second quarter of 2012.

At June 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 June 30, 2012

(in millions)	**Consolidated**	**The Bank of New York Mellon**
Tier 1 capital	$ 9,316	$ 7,240
Total capital	6,832	4,199
Leverage	1,483	1,519

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 14.7% at June 30, 2012 compared with 15.0% at Dec. 31, 2011. The decrease from Dec. 31, 2011 primarily reflects higher risk-weighted assets. Our Basel I Tier 1 leverage ratio was 5.5% at June 30, 2012 compared with 5.2% at Dec. 31, 2011. The leverage ratio of The Bank of New York Mellon was 5.7% at June 30, 2012 compared with 5.3% at Dec. 31, 2011. The improvement in the leverage ratio of both BNY Mellon and The Bank of New York Mellon reflects a lower level of average assets driven by a decrease in average noninterest-bearing client deposits, and 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 second quarter of 2012, we generated $527 million of gross Basel I Tier 1 common equity, which was primarily driven by earnings retention.

Basel I Tier 1 common equity generation

	Quarter ended	
(in millions)	**June 30, 2012**	March 31, 2012
Net income applicable to common shareholders of The Bank of New York Mellon Corporation GAAP	$ 466	$ 619
Add: Amortization of intangible assets, net of tax	61	61
Gross Basel I Tier 1 common equity generated	**527**	680
Less capital deployed:		
Dividends	**156**	158
Common stock repurchases	**286**	371
Total capital deployed	442	529
Add: Other	**(53)**	146
Net Basel I Tier 1 common equity generated	**$ 32**	$ 297

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 June 30, 2012.

Potential impact to capital ratios as of June 30, 2012

	Increase or decrease of	
(basis points)	**$100 million in common equity**	**$1 billion in risk-weighted assets/ quarterly average assets** *(a)*
Basel I:		
Tier 1 capital	9 bp	14 bp
Total capital	9	15
Leverage	4	2
Basel III:		
Estimated Tier 1 common equity ratio	7 bp	6 bp

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

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Our tangible BNY Mellon shareholders equity to tangible assets of operations ratio was 6.1% at June 30, 2012 compared with 6.4% at Dec. 31, 2011. The decrease compared with Dec. 31, 2011 was primarily due to lower cash on deposit with the Federal Reserve and other central banks, as we increased our investment in securities.

At June 30, 2012, we had approximately $1.2 billion of trust preferred securities outstanding. These securities currently qualify as Tier 1 capital. The implementation of the Dodd-Frank Act will disqualify these trust preferred securities from being treated as Tier 1 capital over a three-year period beginning Jan. 1, 2013.

Our outstanding trust preferred securities include $500 million of Fixed-to-Floating Rate Normal Preferred Capital Securities (PCS) issued by Mellon Capital IV. As contractually obligated under the terms of the PCS, a remarketing occurred in May 2012. In this remarketing, junior subordinated notes issued by BNY Mellon and held by Mellon Capital IV were sold to third party investors and then exchanged for BNY Mellon s senior notes, which were sold in a public offering. The proceeds of the sale of the senior notes were used to fund the purchase by Mellon Capital IV of $500 million of BNY Mellon s Series A non-cumulative perpetual preferred stock, which was issued on June 20, 2012. As a result of the remarketing, the PCS are expected to pay distributions at a rate per annum equal to the greater of (i) three-month LIBOR plus 0.565% for the related distribution period; and (ii) 4.000%. The non-cumulative perpetual preferred stock qualifies as Tier 1 capital under the recently released NPRs.

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

Components of Basel I Tier 1 and total risk-based capital *(a)*	**June 30,**	March 31,	Dec. 31,	June 30,
(in millions)	**2012**	2012	2011	2011
Tier 1 capital:				
Common shareholders equity	**$ 34,033**	$ 34,000	$ 33,417	$ 33,851
Preferred stock	**500**	-	-	-
Trust preferred securities	**1,164**	1,669	1,659	1,669
Adjustments for:				
Goodwill and other intangibles *(b)*	**(20,489)**	(20,674)	(20,630)	(21,180)
Pensions/cash flow hedges	**1,372**	1,397	1,426	1,018
Securities valuation allowance	**(825)**	(663)	(450)	(433)
Merchant banking investments	**(33)**	(34)	(33)	(33)
Total Tier 1 capital	**15,722**	15,695	15,389	14,892
Tier 2 capital:				
Qualifying unrealized gains on equity securities	**2**	2	2	5
Qualifying subordinated debt	**1,317**	1,414	1,545	2,120
Qualifying allowance for credit losses	**467**	494	497	535
Total Tier 2 capital	**1,786**	1,910	2,044	2,660
Total risk-based capital	**$ 17,508**	$ 17,605	$ 17,433	$ 17,552
Total risk-weighted assets	**$ 106,764**	$ 100,763	$ 102,255	$ 105,316
Average assets for leverage capital purposes	**$ 284,776**	$ 281,281	$ 296,484	$ 257,714

(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 $1,400 million at June 30, 2012, $1,428 million at March 31, 2012, $1,459 million at Dec. 31, 2011 and $1,630 million at June 30, 2011, and deferred tax liabilities associated with tax deductible goodwill of $982 million at June 30, 2012, $972 million at March 31, 2012, $967 million at Dec. 31, 2011 and $895 million at June 30, 2011.

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The following table presents the calculation of our estimated Basel III Tier 1 common equity ratio, based on the NPRs and final market risk rule released on June 7, 2012, on a fully phased-in basis.

Estimated Basel III Tier 1 common equity ratio *(a)*	**June 30,**	March 31,	Dec. 31,	June 30,
(dollars in millions)	**2012**	2012	2011	2011
Total Tier 1 capital Basel I	**$ 15,722**	$ 15,695	$ 15,389	$ 14,892
Less: Trust preferred securities	**1,164**	1,669	1,659	1,669
Preferred stock	**500**	-	-	-
Adjustments related to available-for-sale securities and pension liabilities included in accumulated other comprehensive income *(b)*	**513**	700	944	551
Adjustments related to equity method investments *(b)*	**558**	571	555	578
Deferred tax assets	**46**	-	-	-
Net pension fund assets *(b)*	**43**	100	90	542
Other	2	(2)	(3)	(4)
Total estimated Basel III Tier 1 common equity	**$ 12,896**	$ 12,657	$ 12,144	$ 11,556
Total risk-weighted assets Basel I	**$ 106,790**	$ 100,763	$ 102,255	$ 105,316
Add: Adjustments *(c)*	**41,467**	65,997	67,813	71,965
Total estimated Basel III risk-weighted assets	**$ 148,257**	$ 166,760	$ 170,068	$ 177,281
Estimated Basel III Tier 1 common equity ratio Non-GAAP	**8.7%**	7.6%	7.1%	6.5%

(a) The estimated Basel III Tier 1 common equity ratio at June 30, 2012 is based on the NPRs and final market risk rule released on June 7, 2012. The estimated Basel III Tier 1 common equity ratios at March 31, 2012, Dec. 31, 2011 and June 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, while the NPRs use an investment grade standard and internal risk models. Securitization exposure 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.

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 16 of the Notes to Consolidated Financial Statements for additional information on the VaR methodology.

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

VaR *(a)*		**2nd Quarter 2012**		**June 30,**
(in millions)	**Average**	**Minimum**	**Maximum**	**2012**
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**
Credit	-	-	-	-
Diversification	**(3.7)**	**N/M**	**N/M**	**(3.1)**
Overall portfolio	**8.9**	**5.0**	**13.6**	**10.0**

VaR *(a)*		1st Quarter 2012		March 31,
(in millions)	Average	Minimum	Maximum	2012
Interest rate	$ 9.7	$ 6.0	$ 13.0	$ 8.2
Foreign exchange	3.3	1.8	4.8	3.1
Equity	2.3	1.4	3.4	2.1
Credit	-	-	-	-

Diversification	(4.4)	N/M	N/M	(4.4)
Overall portfolio	10.9	6.8	14.8	9.0

VaR *(a)*		2nd Quarter 2011		June 30,
(in millions)	Average	Minimum	Maximum	2011
Interest rate	$ 6.1	$ 3.5	$ 10.4	$ 6.7
Foreign exchange	2.9	0.8	5.2	3.2
Equity	2.7	2.1	3.3	2.8
Credit	0.2	0.1	0.2	0.2
Diversification	(4.6)	N/M	N/M	(4.8)
Overall portfolio	7.3	5.2	10.2	8.1

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VaR *(a)*		**Year-to-date 2012**	
(in millions)	**Average**	**Minimum**	**Maximum**
Interest rate	**$ 9.3**	**$ 5.0**	**$ 13.2**
Foreign exchange	**2.5**	**0.5**	**4.8**
Equity	**2.2**	**1.3**	**3.4**
Credit	**-**	**-**	**-**
Diversification	**(4.0)**	**N/M**	**N/M**
Overall portfolio	**10.0**	**5.0**	**14.8**

VaR *(a)*		Year-to-date 2011	
(in millions)	Average	Minimum	Maximum
Interest rate	$ 5.5	$ 3.0	$ 10.4
Foreign exchange	2.3	0.4	5.2
Equity	2.6	1.8	6.1
Credit	0.2	0.1	0.3
Diversification	(4.0)	N/M	N/M
Overall portfolio	6.6	4.1	10.2

(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 second quarter of 2012, interest rate risk generated 71% of average VaR, foreign exchange risk generated 13% of average VaR and equity risk generated 16% of average VaR. During the second quarter of 2012, our daily trading loss did not exceed our calculated VaR amount on any given day.

BNY Mellon monitors a volatility index of global currency using a basket of 30 major currencies. In the second quarter of 2012, the volatility of this index decreased approximately 3 basis points from the first quarter of 2012.

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.

Distribution of trading revenues (losses) *(a)*

			Quarter ended		
(dollar amounts in millions)	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	**June 30, 2012**
Revenue range:			Number of days		
Less than $(2.5)	-	-	-	-	**-**
$(2.5) - $0	1	2	1	1	**4**
$0 - $2.5	20	21	19	25	**25**
$2.5 - $5.0	31	26	33	32	**29**
More than $5.0	12	15	8	4	6

(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 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 June 30, 2012, our over-the-counter (OTC) derivative assets of $5.0 billion included a CVA deduction of $183 million, including $7 million related to the credit quality of certain CDO counterparties and Lehman. Our OTC derivative liabilities of $6.3 billion included a debit valuation

adjustment (DVA) of $42 million related to our own credit spread. Net of hedges, the CVA decreased $2 million and the DVA decreased $1 million in the second quarter of 2012. The net impact of these adjustments increased foreign exchange and other trading revenue by $1 million in the second quarter of 2012.

In the first quarter of 2012, net of hedges, the CVA decreased $16 million and the DVA decreased $5 million in the first quarter of 2012. The net impact of these adjustments increased foreign exchange and other trading revenue by $11 million

In the second quarter of 2011, net of hedges, the CVA decreased $3 million and the DVA decreased $1 million. The net impact of these adjustments increased foreign exchange and other trading revenue by $2 million.

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. The internal risk ratings for our foreign exchange and

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interest rate derivative counterparty credit exposure were remapped to external ratings in the second quarter of 2012. All prior periods have been restated. The decrease in the counterparties rated AAA to AA- primarily reflects the June 2012 action by Moody s to downgrade several large financial institutions.

Foreign exchange and other trading

counterparty risk rating profile *(a)*

	Quarter ended				
	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	**June 30, 2012**
Rating:					
AAA to AA-	51%	48%	47%	45%	**40%**
A+ to A-	23	27	27	29	**31**
BBB+ to BBB-	22	21	22	22	**22**
Noninvestment grade (BB+ and lower)	4	4	4	4	**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 June 30, 2012

(dollar amounts in millions)	
up 200 bps parallel rate shift vs. baseline *(a)*	**$ 541**
up 100 bps parallel rate shift vs. baseline *(a)*	**400**
Long-term up 50 bps, short-term unchanged *(b)*	**134**
Long-term down 50 bps, short-term unchanged *(b)*	**(121)**

(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.

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 17 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 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. The tangible common shareholders equity 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. 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 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 prior periods. 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

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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 a reconciliation of the tax rate from an effective rate to an operating rate for the second quarter of 2012.

Reconciliation of effective tax rate	**2Q12**
Effective tax rate GAAP	**15.8%**
Tax reduction related to litigation charge	**8.7**
Other	**1.6**
Effective tax rate Operating basis Non-GAAP	**26.1%**

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

Investment management and performance fees				**2Q12 vs.**	
(dollars in millions)	**2Q12**	1Q12	2Q11	**2Q11**	1Q12
Investment management and performance fees	**$ 797**	$ 745	$ 779	**2%**	7%
Less: Performance fees	**54**	16	18	**N/M**	N/M
Investment management fees	**$ 743**	$ 729	$ 761	**(2)%**	2%

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					
(dollars in millions)	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Net income applicable to common shareholders of The Bank of New York Mellon Corporation GAAP	**$ 466**	$ 619	$ 735	**$ 1,085**	$ 1,360
Add: Amortization of intangible assets, net of tax	**61**	61	68	**122**	136
Net income applicable to common shareholders of The Bank of New York Mellon Corporation excluding amortization of intangible assets Non-GAAP	**527**	680	803	**1,207**	1,496
Add: M&I, litigation and restructuring charges	**225**	65	41	**290**	75
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	**$ 752**	$ 745	$ 844	**$ 1,497**	$ 1,571
Average common shareholders equity	**$ 34,123**	$ 33,718	$ 33,464	**$ 33,920**	$ 33,147
Less: Average goodwill	**17,941**	17,962	18,193	**17,951**	18,157
Average intangible assets	**5,024**	5,121	5,547	**5,073**	5,605
Add: Deferred tax liability tax deductible goodwill	**982**	972	895	**982**	895
Deferred tax liability non-tax deductible intangible assets	**1,400**	1,428	1,630	**1,400**	1,630
Average tangible common shareholders equity Non-GAAP	**$ 13,540**	$ 13,035	$ 12,249	**$ 13,278**	$ 11,910
Return on common equity GAAP *(a)*	**5.5%**	7.4%	8.8%	**6.4%**	8.3%
Return on common equity excluding amortization of intangible assets and M&I, litigation and restructuring charges Non-GAAP *(a)*	**8.9%**	8.9%	10.1%	**8.9%**	9.6%
Return on tangible common equity Non-GAAP *(a)*	**15.7%**	21.0%	26.3%	**18.3%**	25.3%
Return on tangible common equity excluding M&I, litigation and restructuring charges Non-GAAP *(a)*	**22.4%**	23.0%	27.6%	**22.7%**	26.6%

(a) Annualized.

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

Pre-tax operating margin					
(dollars in millions)	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Income before income taxes GAAP	**$ 589**	$ 885	$ 1,034	**$ 1,474**	$ 1,983
Less: Net income (loss) attributable to noncontrolling interests of consolidated investment management funds	**29**	11	21	**40**	65
Add: Amortization of intangible assets	**97**	96	108	**193**	216
M&I, litigation and restructuring charges	**378**	109	63	**487**	122
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	**$ 1,035**	$ 1,079	$ 1,184	**$ 2,114**	$ 2,256
Fee and other revenue GAAP	**$ 2,826**	$ 2,838	$ 3,056	**$ 5,664**	$ 5,894
Income from consolidated investment management funds GAAP	**57**	43	63	**100**	173
Net interest revenue GAAP	**734**	765	731	**1,499**	1,429
Total revenue GAAP	**3,617**	3,646	3,850	**7,263**	7,496
Less: Net income (loss) attributable to noncontrolling interests of consolidated investment management funds	**29**	11	21	**40**	65
Total revenue excluding net income (loss) attributable to noncontrolling interests of consolidated investment management funds Non-GAAP	**$ 3,588**	$ 3,635	$ 3,829	**$ 7,223**	$ 7,431
Pre-tax operating margin *(a)*	**16%**	24%	27%	**20%**	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%**	30%	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.

Equity to assets and book value per common share			**Dec. 31,**	**June 30,**
(dollars in millions, unless otherwise noted)	**June 30, 2012**	**March 31, 2012**	**2011**	**2011**
BNY Mellon shareholders equity at period end GAAP	**$ 34,533**	$ 34,000	$ 33,417	$ 33,851
Less: Preferred stock	**500**	-	-	-
BNY Mellon common shareholders equity at period end GAAP	**34,033**	34,000	33,417	33,851
Less: Goodwill	**17,909**	18,002	17,904	18,191
Intangible assets	**4,962**	5,072	5,152	5,514
Add: Deferred tax liability tax deductible goodwill	**982**	972	967	895
Deferred tax liability non-tax deductible intangible assets	**1,400**	1,428	1,459	1,630
Tangible BNY Mellon common shareholders equity at period end Non-GAAP	**$ 13,544**	$ 13,326	$ 12,787	$ 12,671
Total assets at period end GAAP	**$ 330,283**	$ 300,169	$ 325,266	$ 304,706
Less: Assets of consolidated investment management funds	**10,955**	11,609	11,347	13,533
Subtotal assets of operations Non-GAAP	**319,328**	288,560	313,919	291,173
Less: Goodwill	**17,909**	18,002	17,904	18,191
Intangible assets	**4,962**	5,072	5,152	5,514
Cash on deposit with the Federal Reserve and other central banks *(a)*	**72,838**	61,992	90,230	56,478
Tangible total assets of operations at period end Non-GAAP	**$ 223,619**	$ 203,494	$ 200,633	$ 210,990
BNY Mellon shareholders equity to total assets GAAP	**10.5%**	11.3%	10.3%	11.1%
BNY Mellon common shareholders equity to total assets GAAP	**10.3%**	11.3%	10.3%	11.1%
Tangible BNY Mellon common shareholders equity to tangible assets of operations Non-GAAP	**6.1%**	6.5%	6.4%	6.0%
Period-end common shares outstanding *(in thousands)*	**1,181,298**	1,192,716	1,209,675	1,232,691
Book value per common share	**$ 28.81**	$ 28.51	$ 27.62	$ 27.46
Tangible book value per common share Non-GAAP	**$ 11.47**	$ 11.17	$ 10.57	$ 10.28

(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

(dollars in millions)	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Total Tier 1 capital Basel 1	**$ 15,722**	$ 15,695	$ 15,389	$ 14,892
Less: Trust preferred securities	**1,164**	1,669	1,659	1,669
Preferred stock	**500**	-	-	-
Total Tier 1 common equity	**$ 14,058**	$ 14,026	$ 13,730	$ 13,223
Total risk-weighted assets Basel I	**$ 106,764**	$ 100,763	$ 102,255	$ 105,316
Basel I Tier 1 common equity to risk-weighted assets ratio Non-GAAP	**13.2%**	13.9%	13.4%	12.6%

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

(dollars in millions)	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Income (loss) from consolidated investment management funds	**$ 57**	$ 43	$ 63	**$ 100**	$ 173
Less: Net income (loss) attributable to noncontrolling interests of consolidated investment management funds	**29**	11	21	**40**	65
Income from consolidated investment management funds, net of noncontrolling interests	**$ 28**	$ 32	$ 42	**$ 60**	$ 108

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

(dollars in millions)	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Investment management and performance fees	**$ 20**	$ 22	$ 29	**$ 42**	$ 60
Other (Investment income)	**8**	10	13	**18**	48
Income from consolidated investment management funds, net of noncontrolling interests	**$ 28**	$ 32	$ 42	**$ 60**	$ 108

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

Fee and other revenue excluding Shareowner Services

				2Q12 vs.		**Year-to-date**		**YTD12 vs.**
(dollars in millions)	**2Q12**	1Q12	2Q11	**2Q11**	**1Q12**	**2012**	2011	**YTD11**
Investment services fees:								
Asset servicing	**$ 950**	$ 943	$ 973	**(2)%**	**1%**	**$ 1,893**	$ 1,890	**%**
Issuer services	**275**	251	314	**(12)**	**10**	**526**	606	**(13)**
Clearing services	**309**	303	292	**6**	**2**	**612**	584	**5**
Treasury services	**134**	136	134	**-**	**(1)**	**270**	268	**1**
Total investment services fees	**1,668**	1,633	1,713	**(3)**	**2**	**3,301**	3,348	**(1)**
Investment management and performance fees	**797**	745	779	**2**	**7**	**1,542**	1,543	**-**
Foreign exchange and other trading revenue	**180**	191	221	**(19)**	**(6)**	**371**	418	**(11)**
Distribution and servicing	**46**	46	49	**(6)**	**-**	**92**	102	**(10)**
Financing-related fees	**37**	44	47	**(21)**	**(16)**	**81**	88	**(8)**
Investment and other income	**51**	139	145	**(65)**	**(63)**	**190**	226	**(16)**
Total fee revenue	**2,779**	2,798	2,954	**(6)**	**(1)**	**5,577**	5,725	**(3)**

Net securities gains (losses)	**50**	40	48	**N/M**	**N/M**	**90**	53	**N/M**
Total fee and other revenue	**$ 2,829**	$ 2,838	$ 3,002	**(6)%**	**%**	**$ 5,667**	$ 5,778	**(2)%**

Recent accounting and regulatory developments

Recently Issued Accounting Standards

ASU 2011-11 Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued 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 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.

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. Early adoption is permitted.

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 with changes in fair value recognized in net income. In the second 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 FASB and the IASB continue to develop the revised impairment model. 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 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 2012. A final standard is expected in 2013 with an effective date of 2016 or later.

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.

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, and other regulatory initiatives that overlap with the rules, are finalized.

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 are currently developing our initial resolution plans. Our initial plans are required to be submitted to the regulators by Oct. 1, 2012. Following the initial submissions, we are required to submit annual resolution plans by July 1 of each subsequent year.

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.

The purpose of the Federal Reserve s capital plan review is to ensure that these 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 referenced 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. The Federal Reserve recently issued guidance that gives banks and their affiliates until July 21, 2014 to bring their covered activities and investments into conformance with the regulations of the Volcker Rule, which 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. The Federal banking agencies have recently issued Notices of Proposed Rulemaking (and applicable related guidance) in connection with implementing these requirements. 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. One of the markets that regulatory agencies are reviewing, and in which we participate as a clearing and custody bank, is the tri-party repurchase transaction market, or tri-party repo market. 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 final report regarding the tri-party repo market on Feb. 15, 2012. BNY Mellon is working to implement the Task Force s recommendations on its tri-party repo business activities, including the practical elimination of secured intra-day credit. BNY Mellon has taken several steps in that regard, such as the reduction of the length of time for a majority of the intra-day credit exposure, the implementation of auto substitution of collateral and the introduction of three-way trade confirmations.

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 upon 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 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, 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 early adopt.

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 . The NPRs, released by the U.S. banking agencies in June 2012, would both implement the capital provisions of Basel III for U.S. banking institutions and substantially revise the agencies Basel I risk-based capital guidelines as proposed, referred to in the NPRs as the standardized approach to make them more risk sensitive. Although the NPRs have not yet been published in the Federal Register, the agencies indicated preliminarily that comments on the NPRs would be due on Sept. 7, 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, would 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, would change the measure of risk-weighted assets in the denominators of regulatory capital ratios. At June 30, 2012, our estimated Basel III Tier 1 common equity ratio was 8.7%, on a fully phased-in basis, based upon our understanding of the NPRs and the final market risk rules approved by the U.S. banking agencies. The increase in the ratio from 7.6% at March 31, 2012, which was calculated under

prior Basel III guidance and the proposed market risk rule, was primarily due to the reduction in risk-weighted assets relating to the treatment of sub-investment grade securities, partially offset by the treatment of investment grade securitizations and financial institution exposure. The positive impact of the NPRs was partially offset by balance sheet growth in the second quarter of 2012.

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 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 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:

- 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 impacted by a new Tier 1 common equity surcharge to 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 only to advance approaches banks. 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. 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. 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 June 2012, the Basel Committee published a consultative document proposing principles to be applied by national regulators to apply a new Tier 1 common equity surcharge to certain D-SIBs. Comments were due by Aug. 1, 2012. The consultative document is much less detailed than the G-SIB proposal 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 generality of the proposal, 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 December 2011, the Basel Committee issued a consultative document on the *Definition of capital disclosure requirements*, which proposes disclosure requirements that aim to improve the transparency and comparability of a bank s capital base. The consultative document includes 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;
- 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;
- Proposals on how banks should meet the Basel III requirement to 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.

The Basel Committee proposes that banks comply with the disclosure requirements set out in the consultative document from the date of publication of their first set of financial statements relating to a balance sheet date on or after Jan. 1, 2013 (with the exception of the post-Jan. 1, 2018 template). Furthermore, it is proposed that banks 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.

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.

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.

- 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;
- 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.

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Item 1. Financial Statements

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

Consolidated Income Statement (unaudited)

	Quarter ended			Year-to-date	
(in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Fee and other revenue					
Investment services fees:					
Asset servicing	**$ 950**	$ 943	$ 973	**$ 1,893**	$ 1,890
Issuer services	**275**	251	365	**526**	716
Clearing services	**309**	303	292	**612**	584
Treasury services	**134**	136	134	**270**	268
Total investment services fees	**1,668**	1,633	1,764	**3,301**	3,458
Investment management and performance fees	**797**	745	779	**1,542**	1,543
Foreign exchange and other trading revenue	**180**	191	222	**371**	420
Distribution and servicing	**46**	46	49	**92**	102
Financing-related fees	**37**	44	49	**81**	92
Investment and other income	**48**	139	145	**187**	226
Total fee revenue	**2,776**	2,798	3,008	**5,574**	5,841
Net securities gains (losses) including other-than-temporary impairment	**70**	73	54	**142**	32
Noncredit-related gains (losses) on securities not expected to be sold (recognized in OCI)	**20**	33	6	**52**	(21)
Net securities gains (losses)	**50**	40	48	**90**	53
Total fee and other revenue	**2,826**	2,838	3,056	**5,664**	5,894
Operations of consolidated investment management funds					
Investment income	**152**	153	171	**305**	393
Interest of investment management fund note holders	**95**	110	108	**205**	220
Income (loss) from consolidated investment management funds	**57**	43	63	**100**	173
Net interest revenue					
Interest revenue	**875**	912	887	**1,787**	1,735
Interest expense	**141**	147	156	**288**	306
Net interest revenue	**734**	765	731	**1,499**	1,429
Provision for credit losses	**(19)**	5	-	**(14)**	-
Net interest revenue after provision for credit losses	**753**	760	731	**1,513**	1,429
Noninterest expense					
Staff	**1,415**	1,453	1,463	**2,868**	2,887
Professional, legal and other purchased services	**309**	299	301	**608**	584
Net occupancy	**141**	147	161	**288**	314
Software	**127**	119	121	**246**	243
Distribution and servicing	**103**	101	109	**204**	220
Furniture and equipment	**82**	86	82	**168**	166
Sub-custodian	**70**	70	88	**140**	156
Business development	**71**	56	73	**127**	129
Other	**254**	220	247	**474**	476
Amortization of intangible assets	**97**	96	108	**193**	216
Merger and integration, litigation and restructuring charges	**378**	109	63	**487**	122
Total noninterest expense	**3,047**	2,756	2,816	**5,803**	5,513
Income					
Income before income taxes	**589**	885	1,034	**1,474**	1,983
Provision for income taxes	**93**	254	277	**347**	556
Net income	**496**	631	757	**1,127**	1,427
Net (income) loss attributable to noncontrolling interests (includes $(29), $(11), $(21), $(40) and $(65) related to consolidated investment management funds, respectively)	**(30)**	(12)	(22)	**(42)**	(67)
Net income applicable to common shareholders of The Bank of New York Mellon Corporation	**$ 466**	$ 619	$ 735	**$ 1,085**	$ 1,360

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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	
(in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Net income	**$ 496**	$ 631	$ 757	**$ 1,127**	$ 1,427
Net (income) loss attributable to noncontrolling interests	**(30)**	(12)	(22)	**(42)**	(67)
Net income applicable to the common shareholders of The Bank of New York Mellon Corporation	**466**	619	735	**1,085**	1,360
Less: Earnings allocated to participating securities	**7**	8	8	**15**	14
Change in the excess of redeemable value over the fair value of noncontrolling interests	**1**	(6)	-	**(5)**	6
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 share	**$ 458**	$ 617	$ 727	**$ 1,075**	$ 1,340

Average common shares and equivalents outstanding of The Bank of New York Mellon Corporation	Quarter ended			Year-to-date	
(in thousands)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Basic	**1,181,350**	1,193,931	1,230,406	**1,187,649**	1,232,232
Common stock equivalents	**9,414**	8,688	9,318	**9,263**	10,138
Less: Participating securities	**(7,779)**	(7,061)	(6,014)	**(7,648)**	(6,354)
Diluted	**1,182,985**	1,195,558	1,233,710	**1,189,264**	1,236,016
Anti-dilutive securities *(a)*	**94,650**	94,498	88,938	**93,315**	86,988

Earnings per share applicable to the common shareholders of The Bank of New York Mellon Corporation *(b)*	Quarter ended			Year-to-date	
(in dollars)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Basic	**$ 0.39**	$ 0.52	$ 0.59	**$ 0.91**	$ 1.09
Diluted	**$ 0.39**	$ 0.52	$ 0.59	**$ 0.90**	$ 1.08

(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 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.

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

Consolidated Comprehensive Income Statement (unaudited)

	Quarter ended			Year-to-date	
(in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Net income	**$ 496**	$ 631	$ 757	**$ 1,127**	$ 1,427
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments arising during the period	**(265)**	172	121	**(93)**	359
Unrealized gain (loss) on assets available-for-sale:					
Unrealized gain (loss) arising during the period	**197**	237	159	**434**	294
Reclassification adjustment	**(35)**	(24)	(28)	**(59)**	(30)
Total unrealized gain (loss) on assets available-for-sale	**162**	213	131	**375**	264
Defined benefit plans:					
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	**24**	27	17	**51**	34
Total defined benefit plans	**24**	27	17	**51**	34
Net unrealized gain (loss) on cash flow hedges:					
Unrealized hedge gain (loss) arising during the period	**6**	-	(1)	**6**	(1)
Reclassification adjustment	**(6)**	3	1	**(3)**	1
Total unrealized gain (loss) on cash flow hedges	**-**	3	-	**3**	-
Total other comprehensive income (loss), net of tax *(a)*	**(79)**	415	269	**336**	657
Net (income) loss attributable to noncontrolling interests	**(30)**	(12)	(22)	**(42)**	(67)
Other comprehensive (income) loss attributable to noncontrolling interests	**28**	(17)	(17)	**11**	(53)
Net comprehensive income (loss) applicable to the common shareholders of The Bank of New York Mellon Corporation	**$ 415**	$ 1,017	$ 987	**$ 1,432**	$ 1,964

(a) Other comprehensive income (loss) attributable to The Bank of New York Mellon Corporation shareholders was $(51) million for the quarter ended June 30, 2012, $398 million for the quarter ended March 31, 2012, $252 million for the quarter ended June 30, 2011, $347 million for the six months ended June 30, 2012 and $604 million for the six months ended June 30, 2011.

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Notes to Consolidated Financial Statements (continued)

Consolidated Balance Sheet (unaudited)

(dollar amounts in millions, except per share amounts)	**June 30, 2012**	Dec. 31, 2011
Assets		
Cash and due from:		
Banks	**$ 4,522**	$ 4,175
Interest-bearing deposits with the Federal Reserve and other central banks	**76,243**	90,243
Interest-bearing deposits with banks	**39,743**	36,321
Federal funds sold and securities purchased under resale agreements	**8,543**	4,510
Securities:		
Held-to-maturity (fair value of $8,869 and $3,540)	**8,794**	3,521
Available-for-sale	**84,540**	78,467
Total securities	**93,334**	81,988
Trading assets	**6,909**	7,861
Loans	**45,431**	43,979
Allowance for loan losses	**(362)**	(394)
Net loans	**45,069**	43,585
Premises and equipment	**1,711**	1,681
Accrued interest receivable	**628**	660
Goodwill	**17,909**	17,904
Intangible assets	**4,962**	5,152
Other assets (includes $1,410 and $1,848, at fair value)	**19,755**	19,839
Subtotal assets of operations	**319,328**	313,919
Assets of consolidated investment management funds, at fair value:		
Trading assets	**10,399**	10,751
Other assets	**556**	596
Subtotal assets of consolidated investment management funds, at fair value	**10,955**	11,347
Total assets	**$ 330,283**	$ 325,266
Liabilities		
Deposits:		
Noninterest-bearing (principally U.S. offices)	**$ 76,933**	$ 95,335
Interest-bearing deposits in U.S. offices	**49,956**	41,231
Interest-bearing deposits in Non-U.S. offices	**94,255**	82,528
Total deposits	**221,144**	219,094
Federal funds purchased and securities sold under repurchase agreements	**9,162**	6,267
Trading liabilities	**6,940**	8,071
Payables to customers and broker-dealers	**13,305**	12,671
Commercial paper	**1,564**	10
Other borrowed funds	**1,374**	2,174
Accrued taxes and other expenses	**5,969**	6,235
Other liabilities (includes allowance for lending related commitments of $105 and $103, also includes $455 and $382, at fair value)	**6,114**	6,525
Long-term debt (includes $339 and $326, at fair value)	**19,536**	19,933
Subtotal liabilities of operations	**285,108**	280,980
Liabilities of consolidated investment management funds, at fair value:		
Trading liabilities	**9,752**	10,053
Other liabilities	**38**	32
Subtotal liabilities of consolidated investment management funds, at fair value	**9,790**	10,085
Total liabilities	**294,898**	291,065
Temporary equity		
Redeemable noncontrolling interest	**130**	114
Permanent equity		
Preferred stock par value $0.01 per share; authorized 100,000,000 preferred shares; issued 5,001 and - shares	**500**	
Common stock par value $0.01 per share; authorized 3,500,000,000 common shares; issued 1,251,527,230 and 1,249,061,305 shares	**12**	12
Additional paid-in capital	**23,366**	23,185
Retained earnings	**13,588**	12,812
Accumulated other comprehensive loss, net of tax	**(1,280)**	(1,627)

Less: Treasury stock of 70,229,278 and 39,386,698 common shares, at cost	**(1,653)**	(965)
Total The Bank of New York Mellon Corporation shareholders equity	**34,533**	33,417
Non-redeemable noncontrolling interests of consolidated investment management funds	**722**	670
Total permanent equity	**35,255**	34,087
Total liabilities, temporary equity and permanent equity	**$ 330,283**	$ 325,266

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statement of Cash Flows (unaudited)

(in millions)	**Six months ended June 30, 2012**	2011
Operating activities		
Net income	**$ 1,127**	$ 1,427
Net (income) attributable to noncontrolling interests	**(42)**	(67)
Net income applicable to common shareholders of The Bank of New York Mellon Corporation	**1,085**	1,360
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for credit losses	**(14)**	-
Depreciation and amortization	**598**	366
Deferred tax (benefit) expense	**(285)**	251
Net securities (gains) and venture capital (income)	**(95)**	(74)
Change in trading activities	**(179)**	36
Change in accruals and other, net	**(736)**	(942)
Net cash provided by operating activities	**374**	997
Investing activities		
Change in interest-bearing deposits with banks	**(3,502)**	(8,684)
Change in interest-bearing deposits with Federal Reserve and other central banks	**14,000**	(37,729)
Change in loans	**(1,424)**	(4,702)
Purchases of securities held-to-maturity	**(3,123)**	(833)
Paydowns of securities held-to-maturity	**189**	99
Maturities of securities held-to-maturity	**403**	505
Purchases of securities available-for-sale	**(24,126)**	(12,885)
Sales of securities available-for-sale	**5,577**	5,315
Paydowns of securities available-for-sale	**4,784**	4,451
Maturities of securities available-for-sale	**5,447**	2,774
Sales of loans and other real estate	**160**	362
Change in federal funds sold and securities purchased under resale agreements	**(4,034)**	120
Change in seed capital investments	**(2)**	228
Purchases of premises and equipment/capitalized software	**(276)**	(367)
Acquisitions, net cash	**(4)**	(20)
Proceeds from the sale of premises and equipment	**5**	5
Other, net	**133**	(663)
Net cash (used for) investing activities	**(5,793)**	(52,024)
Financing activities		
Change in deposits	**2,373**	50,576
Change in federal funds purchased and securities sold under repurchase agreements	**2,895**	1,970
Change in payables to customers and broker-dealers	**634**	1,550
Change in other borrowed funds	**(773)**	(1,084)
Change in commercial paper	**1,554**	26
Net proceeds from the issuance of long-term debt	**1,264**	1,199
Repayments of long-term debt	**(1,714)**	(748)
Proceeds from the exercise of stock options	**6**	16
Issuance of common stock	**13**	12
Issuance of preferred stock	**500**	-
Treasury stock acquired	**(687)**	(333)
Common cash dividends paid	**(314)**	(274)
Other, net	**30**	(10)
Net cash provided by financing activities	**5,781**	52,900
Effect of exchange rate changes on cash	**(15)**	12
Change in cash and due from banks		
Change in cash and due from banks	**347**	1,885
Cash and due from banks at beginning of period		