Bank of New York Mellon CORP
Form 10-Q
May 09, 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 March 31, 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 incorporation or organization)	*(I.R.S. Employer Identification No.)*

One Wall Street

New York, New York 10286

(Address of principal executive offices)(Zip Code)

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

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

Yes ü No ____

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

Yes ü No ____

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

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

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

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

Class	Outstanding as of March 31, 2012
Common Stock, $0.01 par value	1,192,716,454

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THE BANK OF NEW YORK MELLON CORPORATION

First 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 share amounts and unless otherwise noted)	**March 31, 2012**	Quarter ended Dec. 31, 2011	March 31, 2011
Results applicable to common shareholders of The Bank of New York Mellon Corporation:			
Net income	**$ 619**	$ 505	$ 625
Basic EPS	**0.52**	0.42	0.50
Diluted EPS	**0.52**	0.42	0.50
Fee and other revenue	**$ 2,838**	$ 2,765	$ 2,838
Income (loss) of consolidated investment management funds	**43**	(5)	110
Net interest revenue	**765**	780	698
Total revenue	**$ 3,646**	$ 3,540	$ 3,646
Return on common equity *(annualized) (a)*	**7.4%**	5.9%	7.7%
Non-GAAP adjusted *(a)*	**8.2**	7.7	8.6
Return on tangible common equity *(annualized)* Non-GAAP *(a)*	**21.0%**	17.7%	24.3%
Non-GAAP adjusted *(a)*	**21.2**	20.4	24.4
Return on average assets *(annualized)*	**0.83%**	0.63%	0.98%
Fee revenue as a percentage of total revenue excluding net securities gains (losses)	**78%**	78%	78%
Annualized fee revenue per employee (based on average headcount) *(in thousands)*	**$ 233**	$ 223	$ 238
Percentage of non-U.S. total revenue *(b)*	**37%**	34%	37%
Pre-tax operating margin *(a)*	**24%**	19%	26%
Non-GAAP adjusted *(a)*	**27**	27	28
Net interest margin (FTE)	**1.32%**	1.27%	1.49%
Market value of assets under management at period end *(in billions)*	**$ 1,308**	$ 1,260	$ 1,229
Market value of assets under custody and administration at period end *(in trillions)*	**$ 26.6**	$ 25.8	$ 25.5
Market value of cross-border assets at period end *(in trillions)*	**$ 10.4**	$ 9.7	$ 9.9
Market value of securities on loan at period end *(in billions) (c)*	**$ 265**	$ 269	$ 278
Average common shares and equivalents outstanding *(in thousands)*:			
Basic	**1,193,931**	1,204,994	1,234,076
Diluted	**1,195,558**	1,205,586	1,238,284
Capital ratios:			
Estimated Basel III Tier 1 common equity ratio Non-GAAP *(a)(d)*	**7.6%**	7.1%	6.1%
Basel I Tier 1 common equity to risk-weighted assets ratio Non-GAAP *(a)*	**13.9%**	13.4%	12.4%
Basel I Tier 1 capital ratio	**15.6%**	15.0%	14.0%
Basel I Total (Tier 1 plus Tier 2) capital ratio	**17.5%**	17.0%	16.8%
Basel I leverage capital ratio	**5.6%**	5.2%	6.1%
BNY Mellon s shareholders equity to total assets ratio *(a)*	**11.3%**	10.3%	12.5%
Tangible common shareholders equity to tangible assets of operations ratio Non-GAAP *(a)*	**6.5%**	6.4%	5.9%
Selected average balances:			
Interest-earning assets	**$ 236,331**	$ 247,724	$ 190,179
Assets of operations	**$ 289,900**	$ 304,235	$ 243,356
Total assets	**$ 301,344**	$ 316,074	$ 257,698
Interest-bearing deposits	**$ 125,438**	$ 130,343	$ 116,615
Noninterest-bearing deposits	**$ 66,613**	$ 76,309	$ 38,616
Total The Bank of New York Mellon Corporation shareholders equity	**$ 33,718**	$ 33,761	$ 32,827

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The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited) continued

(dollar amounts in millions, except per share amounts and unless otherwise noted)	**March 31, 2012**	Quarter ended Dec. 31, 2011	March 31, 2011
Other information at period end:			
Cash dividends per common share	**$ 0.13**	$ 0.13	$ 0.09
Common dividend payout ratio	**25%**	31%	18%
Dividend yield *(annualized)*	**2.2%**	2.6%	1.2%
Closing common stock price per common share	**$ 24.13**	$ 19.91	$ 29.87
Market capitalization	**$ 28,780**	$ 24,085	$ 37,090
Book value per common share GAAP *(a)*	**$ 28.51**	$ 27.62	$ 26.78
Tangible book value per common share Non-GAAP *(a)*	**$ 11.17**	$ 10.57	$ 9.67
Full-time employees	**47,800**	48,700	48,400
Common shares outstanding *(in thousands)*	**1,192,716**	1,209,675	1,241,724

(a) See Supplemental information Explanation of Non-GAAP financial measures beginning on page 45 for a calculation of these ratios.
(b) Includes fee revenue, net interest revenue and income of consolidated investment management funds, net of noncontrolling interests.
(c) Represents the securities on loan managed by the Investment Services business.
(d) Our estimated Basel III Tier 1 common equity ratio Non-GAAP reflects our current interpretation of the Basel III rules. Our estimated Basel III Tier 1 common equity ratio could change in the future as the U.S. regulatory agencies implement Basel III or if our businesses change.

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Part I Financial Information

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

General

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

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

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

How we reported results

Throughout this Form 10-Q, measures which are noted as Non-GAAP measures exclude certain items. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons, using measures that relate to our ability to enhance revenues and limit expenses in circumstances where such matters are within our control. We also present the net interest margin on a fully taxable equivalent (FTE) basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. See Supplemental information Explanation of Non-GAAP financial measures beginning on page 45 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 March 31, 2012, we had $26.6 trillion in assets under custody and administration and $1.3 trillion in assets under management, serviced $11.9 trillion in outstanding debt and processed global payments averaging $1.4 trillion per day.

First quarter 2012 event

Capital plan and share repurchase program

In March 2012, BNY Mellon received confirmation that the Board of Governors of the Federal Reserve System (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.

Highlights of first quarter 2012 results

We reported net income applicable to common shareholders of BNY Mellon of $619 million, or $0.52 per diluted common share, in the first quarter of 2012 compared with $625 million, or $0.50 per diluted common share, in the first quarter of 2011 and $505 million, or $0.42 per diluted common share, in the fourth quarter of 2011.

Highlights for the first quarter of 2012 include:

- Assets under custody and administration (AUC) totaled a record $26.6 trillion at March 31, 2012 compared with $25.5 trillion at March 31, 2011 and $25.8 trillion at Dec. 31, 2011. This represents an increase of 4% compared with the prior year and 3% sequentially. The increases were driven by net new business and higher market values. (See the Review of businesses Investment Services business beginning on page 18).
- Assets under management (AUM), excluding securities lending assets, totaled a record $1.31 trillion at March 31, 2012, compared with $1.23 trillion at March 31, 2011 and $1.26 trillion at

Dec. 31, 2011. This represents an increase of 6% compared with the prior year and 4% sequentially. The year-over-year increase primarily reflects net new business and higher market values. On a sequential basis, the increase resulted from higher market values. (See the Review of businesses Investment Management business beginning on page 16).

- Investment services fees totaled $1.6 billion in the first quarter of 2012 compared with $1.7 billion in the first quarter of 2011. The decrease primarily resulted from the impact of the sale of the Shareowner Services business in the fourth quarter of 2011, partially offset by higher Asset Servicing and Clearing services fees. (See the Review of businesses Investment Services business beginning on page 18).
- Investment management and performance fees totaled $745 million in the first quarter of 2012 compared with $764 million in the first quarter of 2011. The decrease was driven by higher money market fee waivers, partially offset by net new business. (See the Review of businesses Investment Management business beginning on page 16).
- Foreign exchange and other trading revenue totaled $191 million in the first quarter of 2012 compared with $198 million in the first quarter of 2011. In the first quarter of 2012, foreign exchange revenue totaled $136 million, a decrease of 21%, reflecting lower volumes and volatility. Other trading revenue was $55 million in the first quarter of 2012 compared to $25 million in the first quarter of 2011. The increase was primarily driven by higher fixed income trading. (See Fee and other revenue beginning on page 6).
- Investment income and other revenue totaled $139 million in the first quarter of 2012 compared with $81 million in the first quarter of 2011. The increase primarily resulted from higher leasing and seed capital gains. (See Fee and other revenue beginning on page 6).
- Net interest revenue totaled $765 million in the first quarter of 2012 compared with $698 million in the first 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 first quarter of 2012 was 1.32% compared with 1.49% in the first quarter of 2011. The decrease reflects higher client deposits nearly half of which were invested in liquid, lower-yielding assets (See Net interest revenue on page 9).
- The provision for credit losses was $5 million in the first quarter of 2012 compared with no provision for credit losses in the first quarter of 2011. (See Consolidated balance sheet review Asset quality and allowance for credit losses beginning on page 30).
- Noninterest expense totaled $2.8 billion in the first quarter of 2012 compared with $2.7 billion in the first quarter of 2011. The increase primarily reflects higher litigation and legal expenses, as well as higher incentive expense due to the vesting of long-term stock awards for retirement-eligible employees and higher pension expense. (See Noninterest expense beginning on page 11).
- BNY Mellon recorded an income tax provision of $254 million (28.7% effective tax rate) in the first quarter of 2012 compared with an income tax provision of $279 million (29.3% effective tax rate) in the first quarter of 2011. (See Income taxes on page 12).
- The unrealized pre-tax gain on our total investment securities portfolio was $1.2 billion at March 31, 2012 compared with $793 million at Dec. 31, 2011. The increase in the valuation of the investment securities portfolio was driven by higher asset-backed securities prices. (See Consolidated balance sheet review Investment securities beginning on page 26).
- At March 31, 2012, our estimated Basel III Tier 1 common equity ratio was 7.6%, compared with 7.1% at Dec. 31, 2011, an improvement of 50 basis points. The improvement was driven by an increase in the value of our investment securities portfolio, earnings retention and lower risk-weighted assets, partially offset by share repurchases. (See Capital beginning on page 39).
- We generated $680 million of gross Basel I Tier 1 common equity in the first quarter of 2012, primarily driven by earnings. Our Basel I Tier 1 capital ratio was 15.6% at March 31, 2012 compared with 15.0% at Dec. 31, 2011. (See Capital beginning on page 39).
- In the first quarter of 2012, we repurchased 17.3 million common shares in the open market at an average price of $21.53 per share for a total of $371 million.

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Fee and other revenue

Fee and other revenue *(a)*

(dollars in millions, unless otherwise noted)	**1Q12**	4Q11	1Q11	**1Q12 vs. 1Q11**	**1Q12 vs. 4Q11**
Investment services fees:					
Asset servicing *(b)*	**$ 943**	$ 885	$ 917	**3%**	**7%**
Issuer services	**251**	287	351	**(28)**	**(13)**
Memo: Issuer services excluding Shareowner Services	*251*	*245*	*292*	*(14)*	*2*
Clearing services	**303**	278	292	**4**	**9**
Treasury services	**136**	134	134	**1**	**1**
Total investment services fees	**1,633**	1,584	1,694	**(4)**	**3**
Investment management and performance fees	**745**	730	764	**(2)**	**2**
Foreign exchange and other trading revenue	**191**	228	198	**(4)**	**(16)**
Distribution and servicing	**46**	42	53	**(13)**	**10**
Financing-related fees	**44**	38	43	**2**	**16**
Investment income	**102**	69	67	**52**	**48**
Other	**37**	77	14	**164**	**(52)**
Total fee revenue	**2,798**	2,768	2,833	**(1)**	**1**
Net securities gains (losses)	**40**	(3)	5	**N/M**	**N/M**
Total fee and other revenue GAAP	**2,838**	2,765	2,838	**-**	**3**
Less: Fee and other revenue related to Shareowner Services *(c)*	**-**	142	62		
Total fee and other revenue excluding Shareowner Services Non-GAAP	**$ 2,838**	$ 2,623	$ 2,776	**2%**	**8%**
Fee revenue as a percent of total revenue excluding net securities gains (losses)	**78%**	78%	78%		
Market value of AUM at period end *(in billions)*	**$ 1,308**	$ 1,260	$ 1,229	**6%**	**4%**
Market value of AUC and administration at period end *(in trillions)*	**$ 26.6**	$ 25.8	$ 25.5	**4%**	**3%**

(a) See Supplemental information Explanation of Non-GAAP financial measures beginning on page 45 for fee and other revenue excluding Shareowner Services Non-GAAP.
(b) Asset servicing fees include securities lending revenue of $49 million in the first quarter of 2012, $43 million in the fourth quarter of 2011 and $37 million in the first quarter of 2011.
(c) The Shareowner Services business was sold on Dec. 31, 2011. Results in the fourth quarter of 2011 include a $98 million pre-tax gain on the sale.
N/M Not meaningful.

Fee and other revenue

Fee and other revenue was unchanged year-over-year and increased 3% (unannualized) sequentially. Excluding the impact of the Shareowner Services business, fee and other revenue increased 2% year-over-year and 8% (unannualized) sequentially. The year-over-year increase primarily reflects new business and higher equity markets, higher seed capital and leasing gains and higher foreign currency remeasurement gains, partially offset by higher fee waivers. The sequential increase primarily reflects higher market values, new business, seed capital and leasing gains, partially offset by lower foreign exchange and other trading revenue, as well as seasonally lower performance fees.

Investment services fees

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

Asset servicing fees were $943 million, an increase of 3% year-over-year and 7% (unannualized) sequentially. Both increases reflect net new business and higher equity markets, as well as higher securities lending revenue driven by wider spreads.

Issuer services fees were $251 million, a decrease of 28% year-over-year and 13% (unannualized) sequentially. Excluding Shareowner Services, Issuer services decreased 14% year-over-year and increased 2% (unannualized) sequentially. The year-over-year decrease primarily resulted from lower money market related fees and lower trust fees related to the weakness in structured products in Corporate Trust and lower Depositary Receipts revenue. Sequentially, higher Depositary Receipts revenue was partially offset by lower Corporate Trust fees.

Clearing services fees were $303 million, an increase of 4% year-over-year and 9% (unannualized) sequentially. The year-over-year increase was driven by net new business and growth in mutual fund assets and retirement accounts, partially offset by lower trading volumes and higher money market fee waivers. The sequential increase primarily reflects higher trading volumes and growth in mutual fund assets.

Treasury services fees were $136 million, an increase of 1% both year-over-year and (unannualized) sequentially. Both increases were primarily driven by higher 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 totaled $745 million in the first quarter of 2012, a decrease of 2% year-over-year and an increase of 2% (unannualized) sequentially. The year-over-year decrease was driven by higher money market fee waivers, partially offset by net new business. Sequentially, higher market values, lower money market fee waivers and net new business were partially offset by seasonally lower performance fees. Performance fees were $16 million in the first quarter of 2012, $17 million in the first quarter of 2011 and $47 million in the fourth quarter of 2011. Excluding performance fees, investment management fees increased 7% (unannualized) sequentially.

Total AUM for the Investment Management business was a record $1.31 trillion at March 31, 2012 compared with $1.23 trillion at March 31, 2011 and $1.26 trillion at Dec. 31, 2011. The year-over-year increase primarily reflects net new business and higher market values. On a sequential basis, the increase resulted from higher market values.

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

(in millions)	**1Q12**	4Q11	1Q11
Foreign exchange	**$ 136**	$ 183	$ 173
Fixed income	**47**	41	17
Credit derivatives *(a)*	**(2)**	(2)	(1)
Other	**10**	6	9
Total	**$ 191**	$ 228	$ 198

(a) Used as economic hedges of loans.

Foreign exchange and other trading revenue totaled $191 million in the first quarter of 2012, $198 million in the first quarter of 2011 and $228 million in the fourth quarter of 2011. In the first quarter of 2012, foreign exchange revenue totaled $136 million, a decrease of 21% year-over-year and 26% (unannualized) sequentially. The year-over-year decrease reflects lower volumes and volatility, while sequentially, volumes were unchanged and volatility decreased 20%. Additionally, foreign exchange revenue continues to be impacted by increasingly competitive market pressures. Other trading revenue was $55 million in the first quarter of 2012 compared with $25 million in the first quarter of 2011 and $45 million in the fourth quarter of 2011. Both increases were primarily driven by higher 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

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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 March 31, 2012, our total revenue for all types of foreign exchange trading transactions was $136 million, which is approximately 4% of our total revenue. Approximately 46% 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 first quarter of 2012 compared with $53 million in the first quarter of 2011 and $42 million in the fourth quarter of 2011. The year-over-year decrease primarily reflects higher money market fee waivers. The sequential increase primarily reflects lower money market fee waivers and increased 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 $44 million in the first quarter of 2012, $43 million in the first quarter of 2011 and $38 million in the fourth quarter of 2011. Both increases were primarily driven by higher capital markets fees.

Investment income

Investment income

(in millions)	**1Q12**	4Q11	1Q11
Corporate/bank-owned life insurance	**$ 34**	$ 35	$ 37
Lease residual gains	**34**	20	13
Seed capital gains	**24**	3	2
Equity investment income	**6**	8	5
Private equity gains	**4**	3	10
Total	**$ 102**	$ 69	$ 67

Investment 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 and gains and losses on private equity investments. Investment income increased $35 million compared with the first quarter of 2011 and $33 million compared with the fourth quarter of 2011. Both increases primarily resulted from higher seed capital and leasing gains.

Other revenue

Other revenue

(in millions)	**1Q12**	4Q11	1Q11
Asset-related gains (losses)	**$ (2)**	$ 69	$ 14
Expense reimbursements from joint ventures	**10**	10	9
Other income (loss)	**29**	(2)	(9)
Total	**$ 37**	$ 77	$ 14

Other revenue includes asset-related gains (losses), expense reimbursements from joint ventures, economic value payments 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

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currency remeasurement gain (loss), other investments and various miscellaneous revenues.

Total other revenue increased $23 million in the first quarter of 2012 compared with the first quarter of 2011 and decreased $40 million compared with the fourth quarter of 2011. The year-over-year increase primarily reflects higher foreign currency remeasurement gains, partially offset by lower asset related gains. The sequential decline primarily resulted from the $98 million pre-tax gain on the

sale of the Shareowner Services business recorded in the fourth quarter of 2011, partially offset by higher foreign currency remeasurement gains.

Net securities gains (losses)

Net securities gains totaled $40 million in the first quarter of 2012, compared with net gains of $5 million in the first quarter of 2011 and net losses of $3 million in the fourth quarter of 2011.

Net interest revenue

Net interest revenue

				1Q12 vs.	
(dollars in millions)	**1Q12**	4Q11	1Q11	**1Q11**	**4Q11**
Net interest revenue (non-FTE)	**$ 765**	$ 780	$ 698	**10%**	**(2)%**
Tax equivalent adjustment	**11**	10	4	**N/M**	**N/M**
Net interest revenue (FTE) Non-GAAP	**$ 776**	$ 790	$ 702	**11%**	**(2)%**
Average interest-earning assets	**$ 236,331**	$ 247,724	$ 190,179	**24%**	**(5)%**
Net interest margin (FTE)	**1.32%**	1.27%	1.49%	**(17) bps**	**5 bps**

bps - basis points.

Net interest revenue totaled $765 million in the first quarter of 2012 compared with $698 million in the first quarter of 2011 and $780 million in the fourth quarter of 2011. The year-over-year 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 sequential decrease was primarily driven by lower average client deposits and lower accretion, partially offset by increased investments in high-quality investment securities.

The net interest margin (FTE) was 1.32% in the first quarter of 2012 compared with 1.49% in the first quarter of 2011 and 1.27% in the fourth quarter of 2011. The year-over-year decrease in the net interest margin (FTE) was primarily driven by increased client deposits, nearly half of which were invested in liquid, lower-yielding assets. The sequential increase in the net interest margin (FTE) primarily reflects increased investments in high-quality investment securities and a decrease in lower-yielding interest-bearing deposits with banks.

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Average balances and interest rates

Average balances and interest rates	Quarter ended					
	March 31, 2012		Dec. 31, 2011		March 31, 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)	**$ 35,095**	**1.30%**	$ 43,628	1.08%	$ 57,637	0.90%
Interest-bearing deposits held at the Federal Reserve and other central banks	**63,526**	**0.27**	72,118	0.32	20,367	0.32
Federal funds sold and securities purchased under resale agreements	**5,174**	**0.73**	5,271	0.64	4,514	0.50
Margin loans	**12,901**	**1.29**	11,886	1.26	7,484	1.48
Non-margin loans:						
Domestic offices	**20,128**	**2.46**	21,794	2.37	21,856	2.57
Foreign offices	**10,180**	**1.77**	10,556	1.54	9,226	1.44
Total non-margin loans	**30,308**	**2.23**	32,350	2.10	31,082	2.22
Securities:						
U.S. government obligations	**17,268**	**1.56**	18,693	1.45	12,849	1.61
U.S. government agency obligations	**32,347**	**2.44**	25,006	2.58	20,221	2.98
State and political subdivisions tax exempt	**3,354**	**2.97**	2,452	3.47	557	6.37
Other securities	**33,839**	**2.84**	33,830	3.19	31,770	3.43
Trading securities	**2,519**	**2.78**	2,490	2.94	3,698	2.44
Total securities	**89,327**	**2.44**	82,471	2.60	69,095	2.96
Total interest-earning assets	**$ 236,331**	**1.56%**	$ 247,724	1.50%	$ 190,179	1.80%
Allowance for loan losses	**(392)**		(384)		(494)	
Cash and due from banks	**4,271**		4,695		4,094	
Other assets	**49,690**		52,200		49,577	
Assets of consolidated investment management funds	**11,444**		11,839		14,342	
Total assets	**$ 301,344**		$ 316,074		$ 257,698	
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Money market rate accounts	**$ 4,299**	**0.27%**	$ 4,666	0.27%	$ 5,417	0.38%
Savings	**787**	**0.30**	1,163	0.19	1,600	0.16
Certificates of deposit of $100,000 & over	**30**	**0.39**	396	0.05	296	0.06
Other time deposits	**33,588**	**0.08**	35,624	0.07	31,823	0.09
Demand deposits	**64**	**0.01**				
Foreign offices	**86,670**	**0.15**	88,494	0.22	77,379	0.19
Total interest-bearing deposits	**125,438**	**0.14**	130,343	0.18	116,515	0.17
Federal funds purchased and securities sold under repurchase agreements	**8,584**	**(0.02)**	8,008	(0.07)	5,172	0.07
Trading liabilities	**1,153**	**1.55**	1,225	1.62	2,764	1.86
Other borrowed funds	**2,579**	**0.79**	2,159	0.93	1,821	1.61
Payables to customers and broker-dealers	**7,555**	**0.11**	8,023	0.08	6,701	0.10
Long-term debt	**20,538**	**1.79**	19,546	1.55	17,014	1.87
Total interest-bearing liabilities	**$ 165,847**	**0.34%**	$ 169,304	0.34%	$ 149,987	0.40%
Total noninterest-bearing deposits	**66,613**		76,309		38,616	
Other liabilities	**24,248**		25,432		22,350	
Liabilities and obligations of consolidated investment management funds	**10,159**		10,516		13,114	
Total liabilities	**266,867**		281,561		224,067	
Temporary equity						
Redeemable noncontrolling interests	**72**		55		76	
Permanent equity						
Total BNY Mellon shareholders equity	**33,718**		33,761		32,827	
Noncontrolling interests			1		8	

Noncontrolling interests of consolidated investment management funds	**687**	696	720
Total permanent equity	**34,405**	34,458	33,555
Total liabilities, temporary equity and permanent equity	**$ 301,344**	$ 316,074	$ 257,698
Net interest margin Taxable equivalent basis	**1.32%**	1.27%	1.49%

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				**1Q12 vs.**	
(dollars in millions)	**1Q12**	4Q11	1Q11	**1Q11**	**4Q11**
Staff:					
Compensation	**$ 861**	$ 885	$ 876	**(2)%**	**(3)%**
Incentives	**352**	281	325	**8**	**25**
Employee benefits	**240**	216	223	**8**	**11**
Total staff	**1,453**	1,382	1,424	**2**	**5**
Professional, legal and other purchased services	**299**	322	283	**6**	**(7)**
Net occupancy	**147**	159	153	**(4)**	**(8)**
Software	**119**	129	122	**(2)**	**(8)**
Distribution and servicing	**101**	96	111	**(9)**	**5**
Furniture and equipment	**86**	84	84	**2**	**2**
Sub-custodian	**70**	62	68	**3**	**13**
Business development	**56**	75	56		**(25)**
Other	**320**	274	277	**16**	**17**
Subtotal	**2,651**	2,583	2,578	**3**	**3**
Amortization of intangible assets	**96**	106	108	**(11)**	**(9)**
Restructuring charges	**(9)**	107	(6)	**N/M**	**N/M**
M&I expenses	**18**	32	17	**6**	**(44)**
Total noninterest expense GAAP	**$ 2,756**	$ 2,828	$ 2,697	**2%**	**(3)%**
Total staff expense as a percent of total revenue	**40%**	39%	39%		
Full-time employees at period end	**47,800**	48,700	48,400	**(1)%**	**(2)%**

N/M Not meaningful.

Noninterest expense excluding Shareowner Services				**1Q12 vs.**	
(dollars in millions)	**1Q12**	4Q11	1Q11	**1Q11**	**4Q11**
Staff:					
Compensation	**$ 861**	$ 871	$ 862	**%**	**(1)%**
Incentives	**352**	278	323	**9**	**27**
Employee benefits	**240**	213	219	**10**	**13**
Total staff	**1,453**	1,362	1,404	**3**	**7**
Professional, legal and other purchased services	**299**	310	272	**10**	**(4)**
Net occupancy	**147**	156	150	**(2)**	**(6)**
Software	**119**	125	119		**(5)**
Distribution and servicing	**101**	96	111	**(9)**	**5**
Furniture and equipment	**86**	83	83	**4**	**4**
Sub-custodian	**70**	62	68	**3**	**13**
Business development	**56**	74	56		**(24)**
Other	**320**	269	269	**19**	**19**
Subtotal	**2,651**	2,537	2,532	**5**	**4**
Amortization of intangible assets	**96**	103	105	**(9)**	**(7)**
Restructuring charges	**(9)**	107	(6)	**N/M**	**N/M**
M&I expenses	**18**	32	17	**6**	**(44)**
Total noninterest expense Non-GAAP	**$ 2,756**	$ 2,779	$ 2,648	**4%**	**(1)%**
Total staff expense as a percent of total revenue	**40%**	40%	39%		
Full-time employees at period end	**47,800**	47,800	47,500	**1%**	**%**

N/M Not meaningful.

Total noninterest expense increased 2% compared with the first quarter of 2011 and decreased 3% (unannualized) compared with the fourth quarter of 2011. Excluding amortization of intangible assets, restructuring charges, merger and integration expenses (M&I) and the direct expenses related to Shareowner Services, noninterest expense increased 5% year-over-year and 4% (unannualized) sequentially. Both increases

primarily reflect higher litigation and legal expenses, as well as higher incentive expense due to the vesting of long-term stock awards for retirement-eligible employees and higher pension expense. Sequentially, we are beginning to realize the results of our operational excellence initiatives as business development, professional and other purchased services, compensation, net occupancy and software expenses decreased.

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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 both the first quarter of 2012 and the first quarter of 2011 and 54% in the fourth quarter of 2011, excluding amortization of intangible assets, restructuring charges and M&I expenses.

Staff expense totaled $1.5 billion in the first quarter of 2012, an increase of 3% compared with the first quarter of 2011 and 7% (unannualized) compared with the fourth quarter of 2011. Both increases in staff expense primarily reflect higher incentive expense due to the vesting of long-term stock awards for retirement-eligible employees and higher pension expense, partially offset by lower compensation expense.

Non-staff expense

Non-staff expense, excluding amortization of intangible assets, restructuring charges and M&I expenses, totaled $1.2 billion in the first quarter of 2012, an increase of 6% compared with the first quarter of 2011 and 2% (unannualized) compared with the fourth quarter of 2011. The year-over-year increase primarily reflects higher litigation and legal expenses, partially offset by lower distribution and servicing expense. The sequential increase was driven by higher litigation expense, primarily offset by lower business development, professional and other purchased services, net occupancy and software expenses.

In the first quarter of 2012, we incurred $18 million of M&I expenses primarily related to the integration of the acquisitions of Global Investment Servicing on July 1, 2010 and BHF Asset Servicing GmbH on Aug. 2, 2010.

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

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.

Income taxes

The effective tax rate for the first quarter of 2012 was 28.7% compared with an effective tax rate of 29.3% in the first quarter of 2011 and 30.6% in the fourth quarter of 2011. For the components of the effective tax rate, see Note 11 of the Notes to Consolidated Financial Statement.

We expect the effective tax rate to be approximately 27-29% in the second quarter of 2012.

Under U.S. tax law, income from certain non-U.S. subsidiaries has not been subject to U.S. income tax as result of a deferral provision applicable to income that is derived in active conduct of a banking and financing business. This active financing deferral provision for these foreign subsidiaries expired for tax years beginning on Jan. 1, 2012. We do not anticipate a material impact to our 2012 financial statements if the law is not extended and will monitor the financial statement impact for subsequent years.

Review of businesses

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

Organization of our business

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

Business accounting principles

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

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

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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.

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

Market indices						**1Q12 vs.**	
	1Q11	2Q11	3Q11	4Q11	**1Q12**	**1Q11**	**4Q11**
S&P 500 Index *(a)*	1326	1321	1131	1258	**1408**	**6%**	**12%**
S&P 500 Index daily average	1302	1318	1227	1224	**1347**	**3**	**10**
FTSE 100 Index *(a)*	5909	5946	5128	5572	**5768**	**(2)**	**4**
FTSE 100 Index daily average	5945	5906	5470	5424	**5818**	**(2)**	**7**
MSCI World Index *(a)*	1335	1331	1104	1183	**1312**	**(2)**	**11**
MSCI World Index daily average	1320	1332	1217	1169	**1268**	**(4)**	**8**
Barclays Capital Aggregate Bond^{SM} Index *(a)*	328	341	346	347	**351**	**7**	**1**
NYSE and NASDAQ share volume *(in billions)*	225	213	250	206	**186**	**(17)**	**(10)**
JPMorgan G7 Volatility Index daily average *(b)*	11.07	11.21	12.60	12.95	**10.39**	**(6)**	**(20)**

(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 March 31, 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 fully 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 March 31, 2012

(dollar amounts in millions)	**Investment Management**	**Investment Services**	**Other**	**Consolidated**
Fee and other revenue	**$ 852***(a)*	**$ 1,854**	**$ 164**	**$ 2,870***(a)*
Net interest revenue	**55**	**644**	**66**	**765**
Total revenue	**907**			