Bank of New York Mellon CORP
Form 10-Q
August 08, 2012
Table of Contents

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

Table of Contents

THE BANK OF NEW YORK MELLON CORPORATION

Second Quarter 2012 Form 10-Q

Table of Contents

Table of Contents

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	Quarter ended March 31, 2012	Quarter ended June 30, 2011	Year-to-date June 30, 2012	Year-to-date 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%

Table of Contents

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.

Table of Contents

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.

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

Net interest revenue

Net interest revenue				2Q12 vs.		Year-to-date		YTD12 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.

Table of Contents

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.

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.

Table of Contents

Noninterest expense

Noninterest expense *(dollars in millions)*	**2Q12**	1Q12	2Q11	**2Q12 vs. 2Q11**	**2Q12 vs. 1Q12**	**Year-to-date 2012**	Year-to-date 2011	**YTD12 vs. 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 *(dollars in millions)*	**2Q12**	1Q12	2Q11	**2Q12 vs. 2Q11**	**2Q12 vs. 1Q12**	**Year-to-date 2012**	Year-to-date 2011	**YTD12 vs. 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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

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

Table of Contents

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.

Table of Contents

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

Investment securities portfolio *(dollars in millions)*	March 31, 2012 Fair value	2Q12 change in unrealized gain/(loss)	**June 30, 2012** Amortized cost	Fair value	Fair value as a % of amortized cost*(a)*	Unrealized gain/(loss)	Ratings 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

Table of Contents

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.

Table of Contents

Loans

Total exposure consolidated	June 30, 2012			Dec. 31, 2011		
(in billions)	**Loans**	**Unfunded commitments**	**Total exposure**	Loans	Unfunded commitments	Total 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		
(dollar amounts in billions)	**Loans**	**Unfunded commitments**	**Total exposure**	**% Inv grade**	**% due <1 yr**	Loans	Unfunded commitments	Total 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

Table of Contents

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		
(dollar amounts in billions)	**Loans**	**Unfunded commitments**	**Total exposure**	**% Inv grade**	**% due <1 yr**	Loans	Unfunded commitments	Total 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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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. Eac