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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2012

or

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

of the Securities Exchange Act of 1934

Commission File No. 001-35651

THE BANK OF NEW YORK MELLON CORPORATION

(Exact name of registrant as specified in its charter)

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

One Wall Street

New York, New York 10286

(Address of principal executive offices)(Zip Code)

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

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

Yes ü No____

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

Yes ü No____

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

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

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

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

Class	Outstanding as of September 30, 2012
Common Stock, $0.01 par value	1,168,606,959

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THE BANK OF NEW YORK MELLON CORPORATION

Third Quarter 2012 Form 10-Q

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The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited)

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

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The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited) (continued)

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

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

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

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

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

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

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Part I Financial Information

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

General

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

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

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

How we reported results

Throughout this Form 10-Q, measures which are noted as Non-GAAP exclude certain items. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons, using measures that relate to our ability to enhance revenues and limit expenses in circumstances where such matters are within our control. We also present the net interest margin on a fully taxable equivalent (FTE) basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. See Supplemental information Explanation of Non-GAAP financial measures beginning on page 48 for a reconciliation of financial measures presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP) to adjusted Non-GAAP financial measures.

Overview

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

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

Subsequent events

Impact of Hurricane Sandy

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

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

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

Highlights of third quarter 2012 results

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

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Highlights for the third quarter of 2012 include:

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

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

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

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

Fee and other revenue

Fee and other revenue *(a)*

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

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

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

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

N/M Not meaningful.

Fee and other revenue

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

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Investment services fees

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

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

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

Investment management and performance fees

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

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

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

Foreign exchange and other trading revenue

Foreign exchange and other trading revenue

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

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

Foreign exchange and other trading revenue totaled $182 million in the third quarter of 2012, $200 million in the third quarter of 2011 and $180 million in the second quarter of 2012. In the third quarter of 2012, foreign exchange revenue totaled $121 million, a decrease of 45% year-over-year and 23% (unannualized) sequentially. Both decreases reflect lower volatility and volumes. Additionally, foreign exchange revenue continues to be impacted by increasingly competitive market pressures. Other trading revenue was $61 million in the third quarter of 2012 compared with a loss of $21 million in the third quarter of 2011 and revenue of $23 million in the second quarter of 2012. The increases compared with both prior periods reflect improved fixed income trading. Foreign exchange revenue is primarily reported in the Investment Services business. Other trading revenue is primarily reported in the Other segment.

The foreign exchange trading engaged in by the Company generates revenues, which are influenced by the volume of client transactions and the spread realized on these transactions. The level of volume and spreads is affected by market volatility, the level of cross-border assets held in custody for clients, the level and nature of underlying cross-border investments and other transactions undertaken by corporate and institutional clients. These revenues also depend on our ability to manage the risk associated with the currency transactions we execute. A substantial majority of our foreign exchange trades is undertaken for our custody clients in transactions where BNY Mellon acts as principal, and not as an agent or broker. As a principal, we earn a profit, if any, based on our ability to risk manage the aggregate foreign currency positions that we buy and sell on a daily basis. Generally speaking, custody clients enter into foreign exchange transactions in one of three ways: *negotiated trading* with BNY Mellon, BNY Mellon s *standing instruction program*, or transactions with *third-party foreign exchange providers*. *Negotiated trading* generally refers to orders entered by the client or the client s investment manager, with all decisions related to the transaction, usually on a transaction-specific basis, made by the client or its investment manager. Such transactions may be initiated by (i) contacting one of our sales desks to negotiate the rate for specific transactions, (ii) using electronic trading platforms, or (iii) electing other methods such as those pursuant to a benchmarking arrangement, in which pricing is determined by an objective market rate plus a pre-negotiated spread. The preponderance of the notional value of our trading volume with clients is in negotiated trading. Our *standing instruction program*, including a standing instruction program option called the Defined Spread Offering, which the Company introduced to clients in the first quarter of 2012, provides custody clients and their investment managers with an end-to-end solution that allows them to shift to BNY Mellon the cost, management and execution risk, often in small transactions not otherwise eligible for a more favorable rate or transactions in restricted and difficult to trade currencies. We incur substantial costs in supporting the global operational infrastructure required to administer the standing instruction program; on a per-transaction basis, the costs associated with the standing instruction program exceed the costs associated with negotiated trading. In response to competitive market pressures and client requests, we are continuing to develop standing instruction program products and services and making these new products and services available to our clients. Our custody clients choose to use *third-party foreign exchange providers* other than BNY Mellon for a substantial majority of their U.S. dollar-equivalent volume foreign exchange transactions.

We typically price negotiated trades for our custody clients at a spread over either our estimation of the current market rate for a particular currency or an agreed upon third-party benchmark. With respect to our standing instruction program, we typically assign a price derived from the daily pricing range for marketable-size foreign exchange transactions (generally more than $1 million) executed between global financial institutions, known as the interbank range. Using the interbank range for the given day, we typically price purchases of currencies at or near the low end of this range and sales of currencies at or near the high end of this range. The standing instruction program Defined Spread Offering prices transactions in each pricing cycle (several times a day in the case of developed market currencies) by adding a predetermined spread to an objective market source for developed and certain emerging market currencies or to a reference rate computed by BNY Mellon for other emerging market currencies. A shift by custody clients from the standing instruction program to other trading options combined with the increasing competitive market pressures on the foreign exchange business may negatively impact our foreign exchange revenue. For the quarter ended Sept. 30, 2012, our total revenue for all types of foreign exchange trading transactions was $121 million, or approximately 3% of our total revenue. Approximately 41% of our foreign exchange revenue resulted from foreign exchange transactions undertaken through our standing instruction program.

Distribution and servicing fees

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

Financing-related fees

Financing-related fees, which are primarily reported in the Other segment, include capital markets fees, loan commitment fees and credit-related fees. Financing-related fees were $46 million in the third quarter of 2012, $40 million in the third quarter of 2011 and $37 million in the second quarter of 2012. Both increases reflect higher capital markets fees. The sequential increase also includes higher credit-related fees.

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Investment and other income

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

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

Net securities gains (losses)

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

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

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

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

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Net interest revenue

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

bps basis points.

FTE fully taxable equivalent.

N/M Not meaningful.

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

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

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

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

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

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Average balances and interest rates

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

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

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

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Average balances and interest rates

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

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

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Noninterest expense

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

N/M Not meaningful.

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

N/M Not meaningful.

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

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

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Staff expense

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

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

Non-staff expense

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

business development expenses, partially offset by support agreement charges.

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

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

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

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

Operational excellence initiatives update

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

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

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

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

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

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

Business Operations

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

Technology

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

Corporate Services

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

Income taxes

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

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

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

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

Review of businesses

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

Organization of our business

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

Business accounting principles

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

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

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

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

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

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

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

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

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

For the quarter ended Sept. 30, 2012

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

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

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For the quarter ended June 30, 2012

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

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

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

For the quarter ended Sept. 30, 2011

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

(a) Total fee and other revenue includes income from consolidated investment management funds of $32 million, net of noncontrolling interests of $13 million, for a net impact of $19 million. Income before taxes includes noncontrolling interests of $13 million.

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

For the nine months ended Sept. 30, 2012

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

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

(a) Total fee and other revenue includes income from consolidated investment management funds of $147 million, net of noncontrolling interests of $65 million, for a net impact of $82 million. Income before taxes includes noncontrolling interests of $65 million.

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

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For the nine months ended Sept. 30, 2011

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

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

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

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Investment Management business

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

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

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

N/M Not meaningful.

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

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

(a) Excludes securities lending cash management assets.

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Business description

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

Review of financial results

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Investment Services business

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

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

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

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Business description

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Review of financial results

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

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

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

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

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

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

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

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

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

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

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

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

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

Other segment

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

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

Review of financial results

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

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

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

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

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

Critical accounting estimates

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

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

Consolidated balance sheet review

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

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

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

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

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

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

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

Exposure in Ireland, Italy, Spain, Portugal and Greece

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

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

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

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

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

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

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

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

(a) *Interest-bearing deposits with banks represent a $100 million placement with an Irish subsidiary of a UK holding company and $146 million of nostro accounts related to our custody business.*

(b) *Represents $284 million, fair value, of residential mortgage-backed securities located in Ireland, Italy and Spain, of which 72% were investment grade, $24 million, fair value, of investment grade asset-backed CLOs located in Ireland, and $3 million, fair value, of money market fund investments located in Ireland.*

(c) *Loans and leases include $357 million of overdrafts primarily to Irish-domiciled investment funds resulting from our custody business, a $67 million commercial lease to an Irish company, which was fully collateralized by U.S. Treasuries, a $473 million overdraft to a financial institution located in Italy, $75 million of custody overdrafts primarily to financial institutions located in Spain, a $33 million overdraft to a telecommunications customer in our Corporate Trust business located in Greece and $3 million of leases to airline manufacturing companies located in Italy and Spain, which are under joint and several guarantee arrangements with guarantors outside of the Eurozone. There is no impairment associated with these loans and leases. Overdrafts occur on a daily basis in our Investment Services businesses and are generally repaid within two business days. The overdrafts in Italy, Spain and Greece have been repaid.*

(d) *Trading assets represent over-the-counter mark-to-market on foreign exchange and interest rate receivables, net of master netting agreements. Trading assets include $36 million of receivables primarily due from Irish-domiciled investment funds and $54 million of receivables due from financial institutions in Italy and Spain. Cash collateral on the trading assets totaled $7 million in Ireland, $38 million in Italy and $6 million in Spain.*

(e) *Lending-related commitments represent $101 million to an insurance company, collateralized by $26 million of marketable securities.*

(f) *Represents $71 million of letters of credit extended to an insurance company in Ireland, collateralized by $64 million of marketable securities, a $4 million letter of credit extended to a financial institution in Italy and a $14 million letter of credit extended to an insurance company in Spain, fully collateralized by marketable securities.*

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On- and off-balance sheet exposure at Dec. 31, 2011 *(in millions)*	**Ireland**	**Italy**	**Spain**	**Portugal**	**Total**
On-balance sheet exposure					
Gross:					
Interest-bearing deposits with banks *(a)*	$ 97	$ 24	$ 4	$ -	$ 125
Investment securities (primarily European Floating Rate Notes) *(b)*	208	155	27	-	390
Loans and leases *(c)*	411	3	4	-	418
Trading assets *(d)*	117	53	16	3	189
Total gross on-balance sheet exposure	833	235	51	3	1,122
Less:					
Collateral	102	39	7	3	151
Guarantees	-	3	1	-	4
Total collateral and guarantees	102	42	8	3	155
Total net on-balance sheet exposure	**$ 731**	**$ 193**	**$ 43**	**$ -**	**$ 967**
Off-balance sheet exposure					
Gross:					
Lending-related commitments *(e)*	$ 273	$ -	$ -	$ -	$ 273
Letters of credit *(f)*	-	2	14	-	16
Total gross off-balance sheet exposure	273	2	14	-	289
Less:					
Collateral	190	-	14	-	204
Total net off-balance sheet exposure	**$ 83**	**$ 2**	**$ -**	**$ -**	**$ 85**
Total exposure:					
Total gross on- and off-balance sheet exposure	**$ 1,106**	**$ 237**	**$ 65**	**$ 3**	**$ 1,411**
Less: Total collateral and guarantees	**292**	**42**	**22**	**3**	**359**
Total net on- and off-balance sheet exposure	**$ 814**	**$ 195**	**$ 43**	**$ -**	**$ 1,052**

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

Investment securities

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

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

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

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

(a) Amortized cost before impairments.
(b) Primarily comprised of exposure to UK, France, Germany and Netherlands.
(c) These RMBS were included in the former Grantor Trust and were marked-to-market in 2009. We believe these RMBS would receive higher credit ratings if these ratings incorporated, as additional credit enhancement, the difference between the written-down amortized cost and the current face amount of each of these securities.
(d) Includes RMBS, commercial MBS and other securities. Primarily comprised of exposure to UK and Netherlands.
(e) Primarily comprised of exposure to Germany, Canada and UK.
(f) Includes commercial paper of $2.0 billion and $2.2 billion, fair value, and money market funds of $918 million and $1.6 billion, fair value, at June 30, 2012 and Sept. 30, 2012, respectively.
(g) Includes net unrealized losses on derivatives hedging securities available-for-sale of $417 million at June 30, 2012 and $407 million at Sept. 30, 2012.

The fair value of our investment securities portfolio was $103.6 billion at Sept. 30, 2012 compared with $81.7 billion at Dec. 31, 2011. The increase in the fair value of the investment securities portfolio primarily reflects larger investments in agency RMBS, state and political subdivision and U.S. Treasury securities, as well as an improvement in the unrealized gain of our investment securities. In the third quarter of 2012, we received $215 million of paydowns and sold $46 million of sub-investment grade securities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Loans

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

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

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

Financial institutions

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

Financial institutions portfolio exposure	**Sept. 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	**$ 6.3**	**$ 2.1**	**$ 8.4**	**83%**	**93%**	$ 6.3	$ 1.9	$ 8.2
Securities industry	**3.2**	**2.1**	**5.3**	**96**	**95**	3.8	2.6	6.4
Asset managers	**1.1**	**3.6**	**4.7**	**99**	**76**	0.8	3.2	4.0
Insurance	**0.2**	**4.4**	**4.6**	**98**	**27**	0.1	4.6	4.7
Government	**-**	**1.7**	**1.7**	**95**	**20**	-	1.6	1.6
Other	**0.2**	**1.3**	**1.5**	**99**	**57**	0.1	1.6	1.7
Total	**$ 11.0**	**$ 15.2**	**$ 26.2**	**93%**	**72%**	$ 11.1	$ 15.5	$ 26.6

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

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

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

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

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

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

Commercial

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

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

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

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

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

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

Wealth management loans and mortgages

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

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

Commercial real estate

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

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

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

Lease financings

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

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

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

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

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

Other residential mortgages

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

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

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

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

Overdrafts

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

Other loans

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

Margin loans

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

Asset quality and allowance for credit losses

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

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

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

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

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

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

The provision for credit losses was a credit of $5 million in the third quarter of 2012 primarily resulting from loan sales and repayments. The provision for credit losses was a credit of $22 million in the third quarter of 2011 and a credit of $19 million in the second quarter of 2012. We anticipate the provision for credit losses will not be significant in the fourth quarter of 2012.

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

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

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

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

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

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

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

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

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

Internal risk factors:

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

Environmental risk factors:

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

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

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

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

(a) *Includes the allowance for wealth management mortgages.*

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

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

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Nonperforming assets

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

Nonperforming assets

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

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

Nonperforming assets

quarterly activity

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

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

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

Deposits

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

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

Short-term borrowings

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

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

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

Federal funds purchased and securities sold under repurchase agreements	**Quarter ended**		
(dollar amounts in millions)	**Sept. 30, 2012**	June 30, 2012	Sept. 30, 2011
Maximum daily balance during the quarter	**$ 15,712**	$ 21,818	$ 21,690
Average daily balance	**$ 10,092**	$ 11,254	$ 10,164
Weighted-average rate during the quarter	**(0.06)%**	0.01%	0.03%
Ending balance	**$ 12,450**	$ 9,162	$ 6,768
Weighted-average rate at period end	**(0.02)%**	(0.03)%	0.01%

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

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

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

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

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

Information related to commercial paper is presented below.

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

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

Information related to other borrowed funds is presented below.

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

Other borrowed funds primarily include borrowings under lines of credit by our Pershing subsidiaries; and overdrafts of sub-custodian account balances in our Investment Services business. Overdrafts in these accounts typically relate to timing differences for settlements. Other borrowed funds were $1.1 billion at Sept. 30, 2012, $1.4 billion at June 30, 2012 and $4.6 billion at Sept. 30, 2011. The decrease compared with the prior year period reflects a change in the source of funding our Pershing subsidiaries.

Liquidity and dividends

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

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

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

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

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

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

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

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

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

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

Average payables to customers and broker-dealers were $7.9 billion for the first nine months of 2012 and $7. 1 billion for the first nine months of 2011. Long-term debt averaged $20.1 billion for the first nine months of 2012 compared with $17.6 billion for the first nine months of 2011. The increase in average long-term debt was driven by planned capital actions and anticipated maturities. Average noninterest-bearing deposits increased to $66.6 billion for the first nine months of 2012 from $51.8 billion for the first nine months of 2011, reflecting growth in client deposits. A significant reduction in our Investment Services businesses would reduce our access to deposits.

The Parent has four major sources of liquidity:

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

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

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

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

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

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

In the third quarter of 2012, we repurchased 13.4 million common shares in the open market at an average price of $21.47 per share for a total of $288 million.

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

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

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

Debt ratings at Sept. 30, 2012

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

(a) Represents senior debt issuer default rating.

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

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

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

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

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

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

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

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

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

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

Pershing LLC, an indirect subsidiary of BNY Mellon, has committed and uncommitted lines of credit in place for liquidity purposes, which are guaranteed by the Parent. The committed line of credit for $750 million extended by 17 financial institutions matures in March 2013. Average borrowings under this line of credit totaled $1 million, in aggregate, during the third quarter of 2012. Pershing LLC has nine separate uncommitted lines of credit amounting to $1.6 billion in aggregate. Average daily borrowing under these lines was $1 million, in aggregate, during the third quarter of 2012. See Liquidity and dividends in the 2011 Annual Report for a description of the covenants required to be maintained by the Parent for the committed line of credit maintained by Pershing LLC. We are currently in compliance with these covenants.

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

Statement of cash flows

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

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

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

Capital

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

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

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

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

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

Capital adequacy

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

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

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

Consolidated and largest bank subsidiary capital ratios

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

(a) The estimated Basel III Tier 1 common equity ratios at Sept. 30, 2012 and June 30, 2012 are based on the NPRs and final market risk rule initially released on June 7, 2012 and published in the Federal Register on Aug. 30, 2012 and calculated on an Advanced Approaches basis, as amended by Basel III. The estimated Basel III Tier 1 common equity ratios of 7.1% at Dec. 31, 2011 and 6.5% at Sept. 30, 2011 were based on prior Basel III guidance and the proposed market risk rule.

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

(c)

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

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

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

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

Capital above guidelines at Sept. 30, 2012

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

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

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

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

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

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

Basel I Tier 1 common equity generation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trading activities and risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign exchange and other trading

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

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

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

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

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

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

Foreign exchange and other trading

counterparty risk rating profile *(a)*

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

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

Asset/liability management

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

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

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

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

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

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

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

(dollar amounts in millions)	
up 200 bps parallel rate shift vs. baseline *(a)*	**$ 573**
up 100 bps parallel rate shift vs. baseline *(a)*	**414**
Long-term up 50 bps, short-term unchanged *(b)*	**129**
Long-term down 50 bps, short-term unchanged *(b)*	**(104)**

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

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

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

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

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

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

Off-balance sheet arrangements

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

Supplemental information Explanation of Non-GAAP financial measures

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

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

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

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

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

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

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

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

(a) Annualized.

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

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

(a) Income before taxes divided by total revenue.

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

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

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

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

Calculation of Basel I Tier 1 common equity to

risk-weighted assets ratio Non-GAAP

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

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

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

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

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

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

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

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

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

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

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

Income from consolidated investment management funds, net of noncontrolling interests

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

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

Income from consolidated investment management funds, net of noncontrolling interests

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

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

Fee and other revenue excluding Shareowner Services

				3Q12 vs.		**Year-to-date**		**YTD12 vs.**
(dollars in millions)	**3Q12**	2Q12	3Q11	**3Q11**	**2Q12**	**2012**	2011	**YTD11**
Investment services fees:								
Asset servicing	**$ 942**	$ 950	$ 922	**2%**	**(1)%**	**$ 2,835**	$ 2,812	**1%**
Issuer services	**311**	275	400	**(22)**	**13**	**837**	1,006	**(17)**
Clearing services	**287**	309	297	**(3)**	**(7)**	**899**	881	**2**
Treasury services	**138**	134	133	**4**	**3**	**408**	401	**2**
Total investment services fees	**1,678**	1,668	1,752	**(4)**	**1**	**4,979**	5,100	**(2)**
Investment management and performance fees	**779**	797	729	**7**	**(2)**	**2,321**	2,272	**2**
Foreign exchange and other trading revenue	**182**	180	200	**(9)**	**1**	**553**	618	**(11)**
Distribution and servicing	**48**	46	43	**12**	**4**	**140**	145	**(3)**
Financing-related fees	**46**	37	38	**21**	**24**	**127**	126	**1**
Investment and other income	**124**	51	83	**N/M**	**N/M**	**314**	309	**2**
Total fee revenue	**2,857**	2,779	2,845	**-**	**3**	**8,434**	8,570	**(2)**
Net securities gains (losses)	**22**	50	(2)	**N/M**	**N/M**	**112**	51	**N/M**
Total fee and other revenue	**$ 2,879**	$ 2,829	$ 2,843	**1%**	**2%**	**$ 8,546**	$ 8,621	**(1)%**

Recent accounting and regulatory developments

Recently Issued Accounting Standards

ASU 2011-11 Disclosures about Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU 2011-11), Disclosures about Offsetting Assets and Liabilities . Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. The amendments are effective for annual reporting periods beginning on or after Jan. 1, 2013. An entity would be required to provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU will not impact our results of operations.

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ASU 2012-02 Testing Indefinite-Lived Intangible Assets for Impairment

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

Proposed Accounting Standards

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

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

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

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

- Fair value Net income encompasses financial assets used in an entity s trading or held-for-sale activities. Changes in fair value would be recognized in net income.
- Fair value Other comprehensive income includes financial assets held primarily for investing activities, including those used to manage interest rate or liquidity risk. Changes in fair value would be recognized in other comprehensive income.
- Amortized cost includes financial assets related to the advancement of funds (through a lending or customer-financing activity) that are managed with the intent to collect those cash flows (including interest and fees).

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

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

Supplementary Document Impairment

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

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

Proposed ASU Revenue from Contracts with Customers

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

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

Proposed ASU Principal versus Agent Analysis

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

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

FASB and IASB project on Leases

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

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

Proposed ASU Disclosures about Liquidity Risk and Interest Rate Risk

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

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

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

Adoption of new accounting standards

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

Regulatory developments

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

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

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

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

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

Resolution Planning

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

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

Regulatory Stress-Testing Requirements

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

Federal Reserve s Comprehensive Capital Analysis and Review

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

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

Volcker Rule

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

Proposed rules removing references to credit ratings

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

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

Task Force on Tri-Party Repo Infrastructure

Regulatory agencies worldwide have begun to re-examine systemic risks to various financial markets, including the tri-party repo market, in which we act as a tri-party repo agent. The Federal Reserve Bank of New York sponsored a Task Force on Tri-Party Repo Infrastructure Reform to examine the risks in the tri-party repo market and to decide what changes should be implemented so that such risks may be mitigated or avoided in future financial crises. The Task Force issued its recommendations on May 17, 2010 and its final report regarding the tri-party repo market on Feb. 15, 2012. BNY Mellon is working to implement recommendations by the U.S. Tri-Party Repo Infrastructure Reform Task Force to significantly reduce the secured intraday credit we provide. BNY Mellon has implemented several measures in that regard, including: (1) a later day unwind for most maturing tri-party repos to reduce the time of our exposure; (2) an auto collateral exchange process that allows dealers to replace pledged collateral by first over-collateralizing with cash; and (3) a three-way trade confirmation process known as automated deal matching to ensure accuracy and transparency.

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

Basel III and U.S. Capital Reform

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

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

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

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

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

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

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

- A Tier 1 common equity ratio of at least 7.0%, 4.5% attributable to a minimum Tier 1 common equity ratio and 2.5% attributable to a capital conservation buffer ;
- A Tier 1 capital ratio of at least 6.0%, exclusive of the capital conservation buffer (8.5% upon full implementation of the capital conservation buffer); and
- A total capital ratio of at least 8.0%, exclusive of the capital conservation buffer (10.5% upon full implementation of the capital conservation buffer).

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

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

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

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

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

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

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

Capital disclosure requirements

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

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

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- A 3-step approach for banks to follow to ensure that there is full reconciliation of all regulatory capital elements back to the published financial statements;
- A common template for banks to use to meet the Basel III requirement to provide a description of the main features of capital instruments;
- A requirement that banks provide the full terms and conditions of capital instruments on their websites and the requirement to report the calculation of any ratios involving components of regulatory capital; and
- A template for banks to use during the transition period.

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

IFRS

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

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

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

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

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

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

Proposed Update to Internal Controls Integrated Framework

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

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

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

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

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

Government monetary policies and competition

Government monetary policies

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

Competition

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

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

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

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

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

Website information

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

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

- Financial statements and footnotes prepared using Extensible Business Reporting Language (XBRL);
- Our earnings releases and selected management conference calls and presentations; and
- Our Corporate Governance Guidelines, Directors Code of Conduct and the charters of the Audit, Corporate Governance and Nominating, Human Resources and Compensation, Risk, Technology and Corporate Social Responsibility Committees of our Board of Directors.

The contents of the website listed above or any other websites referenced herein are not incorporated into this Quarterly Report on Form 10-Q. The SEC reports, the Corporate Governance Guidelines, Directors Code of Conduct and committee charters are available in print to any shareholder who requests them. Requests should be sent by email to corpsecretary@bnymellon.com or by mail to the Secretary of The Bank of New York Mellon Corporation, One Wall Street, New York, NY 10286.

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Item 1. Financial Statements

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

Consolidated Income Statement (unaudited)

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

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

Consolidated Income Statement (unaudited) continued

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

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

Earnings per share applicable to the common shareholders of The Bank of New York Mellon Corporation *(b)*	Quarter ended			Year-to-date	
(in dollars)	**Sept. 30, 2012**	June 30, 2012	Sept. 30, 2011	**Sept. 30, 2012**	Sept. 30, 2011
Basic	**$ 0.61**	$ 0.39	$ 0.53	**$ 1.51**	$ 1.61
Diluted	**$ 0.61**	$ 0.39	$ 0.53	**$ 1.51**	$ 1.61

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

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

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Comprehensive Income Statement (unaudited)

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

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

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Balance Sheet (unaudited)

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

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

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statement of Cash Flows (unaudited)

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

Supplemental disclosures		
Interest paid	**$ 405**	$ 391
Income taxes paid	**584**	347
Income taxes refunded	**7**	230

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statement of Changes in Equity (unaudited)

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

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

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1 Basis of presentation

Basis of presentation

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

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

Use of estimates

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

Note 2 Accounting changes and new accounting guidance

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

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

ASU 2011-05 Presentation of Comprehensive Income

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

Notes to Consolidated Financial Statements (continued)

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

ASU 2011-08 - Testing Goodwill for Impairment

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

Note 3 Acquisitions and dispositions

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

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

Acquisitions in 2011

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

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

Dispositions in 2011

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

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Notes to Consolidated Financial Statements (continued)

Note 4 Securities

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

Securities at Sept. 30, 2012

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

(a) Includes $9.8 billion, at fair value, of government-sponsored and guaranteed entities, and sovereign debt.
(b) Previously included in the Grantor Trust. The Grantor Trust was dissolved in the first quarter of 2011.

Securities at Dec. 31, 2011

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

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

(a) Includes $13.1 billion, at fair value, of government-sponsored and guaranteed entities, and sovereign debt.
(b) Previously included in the Grantor Trust. The Grantor Trust was dissolved in the first quarter of 2011.

Net securities gains (losses)

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

Temporarily impaired securities

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

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Notes to Consolidated Financial Statements (continued)

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

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

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

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

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

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

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Notes to Consolidated Financial Statements (continued)

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

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

(a) Yields are based upon the amortized cost of securities.
(b) Includes money market funds.

Other-than-temporary impairment

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

- Default rate the number of mortgage loans expected to go into default over the life of the transaction, which is driven by the roll rate of loans in each performance bucket that will ultimately migrate to default; and
- Severity the loss expected to be realized when a loan defaults.

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

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

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

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

Projected weighted-average default rates and severities

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

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Notes to Consolidated Financial Statements (continued)

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

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

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

Debt securities credit loss roll forward

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

Debt securities credit loss roll forward

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

Note 5 Loans and asset quality

Loans

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

Loans

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

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

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

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Notes to Consolidated Financial Statements (continued)

Allowance for credit losses

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

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

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

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

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

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

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

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Notes to Consolidated Financial Statements (continued)

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

(in millions)	Commercial	Commercial real estate	Financial institutions	Lease financings	Wealth management loans and mortgages	Other residential mortgages	All Other *(a)*	Foreign	Total
Beginning balance	$ 96	$ 27	$ 24	$ 91	$ 31	$ 200	$ -	$ 66	$ 535
Charge-offs	(1)	-	(1)	-	-	(15)	-	-	(17)
Recoveries	-	-	1	-	-	1	-	-	2
Net (charge-offs) recoveries	(1)	-	-	-	-	(14)	-	-	(15)
Provision	3	4	6	-	-	(24)	-	(11)	(22)
Ending balance	$ 98	$ 31	$ 30	$ 91	$ 31	$ 162	$ -	$ 55	$ 498
Allowance for:									
Loans losses	$ 38	$ 22	$ 6	$ 91	$ 25	$ 162	$ -	$ 48	$ 392
Unfunded commitments	60	9	24	-	6	-	-	7	106
Individually evaluated for impairment:									
Loan balance	$ 26	$ 28	$ 12	$ -	$ 28	$ -	$ -	$ 12	$ 106
Allowance for loan losses	9	3	2	-	5	-	-	5	24
Collectively evaluated for impairment:									
Loan balance	$ 853	$ 1,421	$ 6,792	$ 1,543	$ 6,937	$ 2,016	$ 15,621 (a)	$ 10,023	$ 45,206
Allowance for loan losses	29	19	4	91	20	162	-	43	368

(a) Includes $4,721 million of domestic overdrafts, $10,327 million of margin loans and $573 million of other loans at Sept. 30, 2011.

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

(in millions)	Commercial	Commercial real estate	Financial institutions	Lease financings	Wealth management loans and mortgages	Other residential mortgages	All Other	Foreign	Total
Beginning balance	$ 91	$ 34	$ 63	$ 66	$ 29	$ 156	$ -	$ 58	$ 497
Charge-offs	(1)	-	(8)	-	-	(19)	-	-	(28)
Recoveries	1	-	-	-	-	5	-	-	6
Net (charge-offs) recoveries	-	-	(8)	-	-	(14)	-	-	(22)
Provision	7	1	(18)	(11)	4	(1)	2	(3)	(19)
Ending balance	**$ 98**	**$ 35**	**$ 37**	**$ 55**	**$ 33**	**$ 141**	**$ 2**	**$ 55**	**$ 456**

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

(in millions)	Commercial	Commercial real estate	Financial institutions	Lease financings	Wealth management loans and mortgages	Other residential mortgages	All Other	Foreign	Total
Beginning balance	$ 93	$ 40	$ 11	$ 90	$ 41	$ 235	$ 1	$ 60	$ 571
Charge-offs	(5)	(4)	(2)	-	-	(40)	-	(6)	(57)
Recoveries	2	-	3	-	-	1	-	-	6
Net (charge-offs) recoveries	(3)	(4)	1	-	-	(39)	-	(6)	(51)
Provision	8	(5)	18	1	(10)	(34)	(1)	1	(22)
Ending balance	$ 98	$ 31	$ 30	$ 91	$ 31	$ 162	$ -	$ 55	$ 498

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Notes to Consolidated Financial Statements (continued)

Nonperforming assets

The table below sets forth information about our nonperforming assets.

Nonperforming assets

(in millions)	**Sept. 30, 2012**	June 30, 2012	Dec. 31, 2011
Loans:			
Other residential mortgages	**$ 166**	$ 177	$ 203
Wealth management	**33**	35	32
Commercial	**29**	31	21
Commercial real estate	**29**	30	40
Foreign	**9**	9	10
Financial institutions	**3**	3	23
Total nonperforming loans	**269**	285	329
Other assets owned	**5**	9	12
Total nonperforming assets *(a)*	**$ 274**	$ 294	$ 341

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

At Sept. 30, 2012, undrawn commitments to borrowers whose loans were classified as nonaccrual or reduced rate were not material.

Lost interest

Lost interest

(in millions)	**3Q12**	2Q12	3Q11	**YTD12**	YTD11
Amount by which interest income recognized on nonperforming loans exceeded reversals	**$ 2**	$ 1	$ -	**$ 3**	$ 1
Amount by which interest income would have increased if nonperforming loans at period-end had been performing for the entire period	**$ 3**	$ 5	$ 5	**$ 12**	$ 15

Impaired loans

The table below sets forth information about our impaired loans. We use the discounted cash flow method as the primary method for valuing impaired loans.

Impaired loans

	Quarter ended					
	Sept. 30, 2012		June 30, 2012		Sept. 30, 2011	
(in millions)	Average recorded	Interest income	Average recorded	Interest income	Average recorded	Interest income

	investment	recognized	investment	recognized	investment	recognized
Impaired loans with an allowance:						
Commercial	**$ 61**	**$ 1**	$ 64	$ 1	$ 28	$ -
Commercial real estate	**26**	**-**	31	-	14	-
Financial institutions	**1**	**-**	6	-	8	-
Wealth management loans and mortgages	**28**	**-**	28	-	26	-
Foreign	**9**	**-**	10	-	13	-
Total impaired loans with an allowance	**125**	**1**	139	1	89	-
Impaired loans without an allowance*:*						
Commercial real estate	**2**	**-**	3	-	13	-
Financial institutions	**2**	**-**	2	-	-	-
Wealth management loans and mortgages	**6**	**-**	3	-	3	-
Total impaired loans without an allowance *(a)*	**10**	**-**	8	-	16	-
Total impaired loans	**$ 135**	**$ 1**	$ 147	$ 1	$ 105	$ -

(a) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under the accounting standard related to impaired loans.

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Notes to Consolidated Financial Statements (continued)

Impaired loans	Year-to-date			
	Sept. 30, 2012		Sept. 30, 2011	
(in millions)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Impaired loans with an allowance:				
Commercial	**$ 53**	**$ 3**	$ 28	$ -
Commercial real estate	**31**	**-**	19	-
Financial institutions	**9**	**-**	6	-
Wealth management loans and mortgages	**28**	**-**	39	1
Foreign	**10**	**-**	10	-
Total impaired loans with an allowance	**131**	**3**	102	1
Impaired loans without an allowance:				
Commercial	**-**	**-**	2	1
Commercial real estate	**3**	**-**	15	-
Financial institutions	**2**	**-**	-	-
Wealth management loans and mortgages	**4**	**-**	1	-
Total impaired loans without an allowance *(a)*	**9**	**-**	18	1
Total impaired loans	**$ 140**	**$ 3**	$ 120	$ 2

(a) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under the accounting standard related to impaired loans.

Impaired loans	**Sept. 30, 2012**			Dec. 31, 2011		
(in millions)	Recorded investment	Unpaid principal balance	Related allowance *(a)*	Recorded investment	Unpaid principal balance	Related allowance *(a)*
Impaired loans with an allowance:						
Commercial	**$ 60**	**$ 65**	**$ 12**	$ 26	$ 31	$ 9
Commercial real estate	**26**	**27**	**5**	35	41	7
Financial institutions	**1**	**1**	**-**	21	21	7
Wealth management loans and mortgages	**29**	**29**	**7**	27	27	5
Foreign	**9**	**17**	**4**	10	18	4
Total impaired loans with an allowance	**125**	**139**	**28**	119	138	32
Impaired loans without an allowance:						
Commercial real estate	**2**	**2**	**N/A**	3	3	N/A
Financial institutions	**2**	**8**	**N/A**	3	9	N/A
Wealth management loans and mortgages	**9**	**9**	**N/A**	3	3	N/A
Total impaired loans without an allowance *(b)*	**13**	**19**	**N/A**	9	15	N/A
Total impaired loans *(c)*	**$ 138**	**$ 158**	**$ 28**	$ 128	$ 153	$ 32

(a) The allowance for impaired loans is included in the allowance for loan losses.
(b) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under the accounting standard related to impaired loans.
(c) Excludes an aggregate of $2 million of impaired loans in amounts individually less than $1 million at Sept. 30, 2012 and Dec. 31, 2011. The allowance for loan loss associated with these loans totaled less than $1 million at both Sept. 30, 2012 and Dec. 31, 2011.
N/A Not applicable.

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Notes to Consolidated Financial Statements (continued)

Past due loans

The table below sets forth information about our past due loans.

Past due loans and still accruing	**Sept. 30, 2012**				Dec. 31, 2011			
	Days past due			Total	Days past due			Total
(in millions)	30-59	60-89	>90	past due	30-59	60-89	>90	past due
Domestic:								
Wealth management loans and mortgages	**$ 33**	**$ 22**	**$ 5**	**$ 60**	$ 89	$ 3	$ -	$ 92
Other residential mortgages	**49**	**5**	**9**	**63**	36	10	13	59
Financial institutions	**-**	**-**	**-**	**-**	36	-	-	36
Commercial	-	-	-	-	60	7	-	67
Commercial real estate	7	8	-	15	47	9	-	56
Total domestic	**89**	**35**	**14**	**138**	268	29	13	310
Foreign	**-**	**-**	**-**	**-**	-	-	-	-
Total past due loans	**$ 89**	**$ 35**	**$ 14**	**$ 138**	$ 268	$ 29	$ 13	$ 310

Troubled debt restructurings (TDRs)

A modified loan is considered a TDR if the debtor is experiencing financial difficulties and the creditor grants a concession to the debtor that would not otherwise be considered. A TDR may include a transfer of real estate or other assets from the debtor to the creditor, or a modification of the term of the loan. Not all modified loans are considered TDRs.

The following table presents TDRs that occurred during the third quarter of 2012.

TDRs during the third quarter of 2012		Outstanding recorded investment	
	Number of	Pre-	Post-
(dollars in millions)	contracts	modification	modification
Other residential mortgages	48	$ 14	$ 14
Wealth management loans and mortgages	4	2	2
Total TDRs	**52**	**$ 16**	**$ 16**

Other residential mortgages

The modifications of the other residential mortgage loans consisted of reducing the stated interest rate and in certain cases, a forbearance of default and extending the maturity date. The value of modified loans is based on the fair value of the collateral. Probable loss factors are applied to the value of the modified loans to determine the allowance for credit losses.

Wealth management loans and mortgages

The modification of the wealth management loans and mortgages consisted of a forbearance of defaults and a change from a demand loan to a specific maturity date. The difference between the book value and the market price of the loan is included in the allowance for credit losses.

TDRs that subsequently defaulted

There were 13 residential mortgage loans that had been restructured in a TDR during the previous 12 months and have subsequently defaulted during the third quarter of 2012. The total recorded investment of these loans was $3 million.

Credit quality indicators

Our credit strategy is to focus on investment grade names to support cross-selling opportunities and avoid single name/industry concentrations. Each customer is assigned an internal rating grade which is mapped to an external rating agency grade equivalent based upon a number of dimensions which are continually evaluated and may change over time.

The following tables set forth information about credit quality indicators.

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Notes to Consolidated Financial Statements (continued)

Commercial loan portfolio

Commercial loan portfolio Credit risk profile by creditworthiness category

	Commercial		Commercial real estate		Financial institutions	
(in millions)	**Sept. 30, 2012**	Dec. 31, 2011	**Sept. 30, 2012**	Dec. 31, 2011	**Sept. 30, 2012**	Dec. 31, 2011
Investment grade	**$ 812**	$ 906	**$ 1,264**	$ 1,062	**$ 9,756**	$ 9,643
Noninvestment grade	**341**	374	**453**	387	**1,292**	1,501
Total	**$ 1,153**	$ 1,280	**$ 1,717**	$ 1,449	**$ 11,048**	$ 11,144

The commercial loan portfolio is divided into investment grade and noninvestment grade categories based on rating criteria largely consistent with those of the public rating agencies. Each customer in the portfolio is assigned an internal rating grade. These internal rating grades are generally consistent with the ratings categories of the public rating agencies. Customers with ratings consistent with BBB- (S&P)/Baa3 (Moody s) or better are considered to be investment grade. Those clients with ratings lower than this threshold are considered to be noninvestment grade.

Wealth management loans and mortgages

Wealth management loans and mortgages
Credit risk profile by internally assigned grade

(in millions)	**Sept. 30, 2012**	Dec. 31, 2011
Wealth management loans:		
Investment grade	**$ 4,124**	$ 3,450
Noninvestment grade	**124**	111
Wealth management mortgages	**3,967**	3,781
Total	**$ 8,215**	$ 7,342

Wealth management non-mortgage loans are not typically rated by external rating agencies. A majority of the wealth management loans are secured by the customers investment management accounts or custody accounts. Eligible assets pledged for these loans are typically investment grade, fixed income securities, equities and/or mutual funds. Internal ratings for this portion of the wealth management portfolio, therefore, would equate to investment-grade external ratings. Wealth management loans are provided to select customers based on the pledge of other types of assets, including business assets, fixed assets, or a modest amount of commercial real estate. For the loans collateralized by other assets, the credit quality of the obligor is carefully analyzed, but we do not consider this portfolio of loans to be investment grade.

Credit quality indicators for wealth management mortgages are not correlated to external ratings. Wealth management mortgages are typically loans to high-net-worth individuals, which are secured primarily by residential property. These loans are primarily interest-only adjustable rate mortgages with an average loan to value ratio of 63% at origination. In the wealth management portfolio, 1% of the mortgages were past due at Sept. 30, 2012.

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

Other residential mortgages

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans and totaled $1,701 million at Sept. 30, 2012 and $1,923 million at Dec. 31, 2011. These loans are not typically correlated to external ratings. Included in this portfolio at Sept. 30, 2012 are $521 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are predominantly prime mortgage loans, with a small portion of Alt-A loans. As of Sept. 30, 2012, the purchased loans in this portfolio had a weighted-average original loan-to-value ratio of 76% and 25% of these loans were at least 60 days delinquent. The properties securing the prime and Alt-A mortgage loans were located (in order of concentration) in California, Florida, Virginia, Maryland and the tri-state area (New York, New Jersey and Connecticut).

Overdrafts

Overdrafts primarily relate to custody and securities clearance clients and totaled $5,857 million at Sept. 30, 2012 and $4,849 million at Dec. 31, 2011. Overdrafts occur on a daily basis in the custody and

Notes to Consolidated Financial Statements (continued)

securities clearance business and are generally repaid within two business days.

Margin loans

We had $13,036 million of secured margin loans on our balance sheet at Sept. 30, 2012 compared with $12,760 million at Dec. 31, 2011. 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. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to them.

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.

Reverse repurchase agreements

Reverse repurchase agreements are transactions fully collateralized with high-quality liquid securities. These transactions carry minimal credit risk and therefore are not allocated an allowance for credit losses.

Note 6 Goodwill and intangible assets

Impairment testing

Goodwill impairment testing is performed at least annually at the reporting unit level. Intangible assets not subject to amortization are tested annually for impairment or more often if events or circumstances indicate they may be impaired.

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 of 2012, BNY Mellon conducted an annual goodwill impairment test on all seven reporting units. The estimated fair value of the seven reporting units exceeded the carrying value and no goodwill impairment was recognized.

Goodwill

The tables below provide a breakdown of goodwill by business.

Goodwill by business

(in millions)	Investment Management	Investment Services	Other	Consolidated
Balance at Dec. 31, 2011	$ 9,373	$ 8,491	$ 40	$ 17,904
Foreign exchange translation	62	20	-	82
Other *(a)*	(1)	(11)	10	(2)
Balance at Sept. 30, 2012	**$ 9,434**	**$ 8,500**	**$ 50**	**$ 17,984**

(a) Other changes in goodwill include purchase price adjustments and certain other reclassifications.

Goodwill by business	Investment Management	Investment Services *(a)*	Other *(a)*	Consolidated

(in millions)				
Balance at Dec. 31, 2010	$ 9,359	$ 8,515	$ 168	$ 18,042
Acquisitions	10	-	-	10
Foreign exchange translation	(18)	-	(1)	(19)
Other *(b)*	6	6	-	12
Balance at Sept. 30, 2011	$ 9,357	$ 8,521	$ 167	$ 18,045

(a) Includes the reclassification of goodwill associated with the Shareowner Services business from Investment Services to the Other segment.

(b) Other changes in goodwill include purchase price adjustments and certain other reclassifications.

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Notes to Consolidated Financial Statements (continued)

Intangible assets

The tables below provide a breakdown of intangible assets by business.

Intangible assets net carrying amount by business

(in millions)	Investment Management	Investment Services	Other	Consolidated
Balance at Dec. 31, 2011	$ 2,382	$ 1,922	$ 848	$ 5,152
Amortization	(144)	(144)	-	(288)
Foreign exchange translation	16	2	-	18
Other *(a)*	-	(1)	1	-
Balance at Sept. 30, 2012	**$ 2,254**	**$ 1,779**	**$ 849**	**$ 4,882**

(a) Other changes in intangible assets include purchase price adjustments and certain other reclassifications.

Intangible assets net carrying amount by business

(in millions)	Investment Management	Investment Services *(a)*	Other *(a)*	Consolidated
Balance at Dec. 31, 2010	$ 2,592	$ 2,113	$ 991	$ 5,696
Acquisitions	6	12	-	18
Amortization	(161)	(149)	(12)	(322)
Foreign exchange translation	1	1	-	2
Impairment	-	(6)	-	(6)
Other *(b)*	-	(8)	-	(8)
Balance at Sept. 30, 2011	$ 2,438	$ 1,963	$ 979	$ 5,380

(a) Includes the reclassification of intangible assets associated with the Shareowner Services business from Investment Services to the Other segment.
(b) Other changes in intangible assets include purchase price adjustments and certain other reclassifications.

The table below provides a breakdown of intangible assets by type.

Intangible assets	**Sept. 30, 2012**				Dec. 31, 2011
(dollar amounts in millions)	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**	**Remaining weighted-average amortization period**	Net carrying amount
Subject to amortization:					
Customer relationships - Investment Management	**$ 2,115**	**$ (1,328)**	**$ 787**	**12 yrs.**	$ 920
Customer contracts - Investment Services	**2,351**	**(971)**	**1,380**	**12**	1,517
Other	**132**	**(105)**	**27**	**5**	36
Total subject to amortization	**4,598**	**(2,404)**	**2,194**	**12 yrs.**	2,473
Not subject to amortization: *(a)*					
Trade name	**1,368**	**N/A**	**1,368**	**N/A**	1,366
Customer relationships	**1,320**	**N/A**	**1,320**	**N/A**	1,313
Total not subject to amortization	**2,688**	**N/A**	**2,688**	**N/A**	2,679
Total intangible assets	**$ 7,286**	**$ (2,404)**	**$ 4,882**	**N/A**	$ 5,152

(a) Intangible assets not subject to amortization have an indefinite life.
N/A Not applicable.

Estimated annual amortization expense for current intangibles for the next five years is as follows:

For the year ended Dec. 31,	Estimated amortization expense (in millions)
2012	$ 384
2013	335
2014	299
2015	267
2016	238

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Notes to Consolidated Financial Statements (continued)

Note 7 Other assets

Other assets *(in millions)*	**Sept. 30, 2012**	Dec. 31, 2011
Corporate/bank owned life insurance	**$ 4,299**	$ 4,216
Accounts receivable	**4,046**	4,208
Income taxes receivable	**2,909**	2,573
Equity in joint ventures and other investments *(a)*	**2,767**	2,677
Fails to deliver	**2,117**	961
Fair value of hedging derivatives	**1,171**	1,600
Software	**1,085**	986
Prepaid expenses	**488**	784
Due from customers on acceptances	**276**	321
Prepaid pension assets	**191**	144
Other	**1,095**	1,369
Total other assets	**$ 20,444**	$ 19,839

(a) Includes Federal Reserve Bank stock of $435 million and $429 million, respectively, at cost.

Seed capital and private equity investments valued using net asset value per share

In our Investment Management business, we manage investment assets, including equities, fixed income, money market and alternative investment funds for institutions and other investors. As part of that activity, we make seed capital investments in certain funds. BNY Mellon also holds private equity investments, which consist of investments in private equity funds, mezzanine financings and direct equity investments. Seed capital and private equity investments are included in other assets. Consistent with our policy to focus on our core activities, we continue to reduce our exposure to private equity investments.

The fair value of these investments has been estimated using the net asset value (NAV) per share of BNY Mellon s ownership interest in the funds. The table below presents information about BNY Mellon s investments in seed capital and private equity investments.

Seed capital and private equity investments valued using NAV

	Sept. 30, 2012				Dec. 31, 2011			
(dollar amounts in millions)	**Fair value**	**Unfunded commitments**	**Redemption frequency**	**Redemption notice period**	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds *(a)*	**$ 16**	**$ -**	**Monthly-quarterly**	**3-45 days**	$ 9	$ -	Monthly-quarterly	3-45 days
Private equity funds *(b)*	**102**	**18**	**N/A**	**N/A**	122	24	N/A	N/A
Other funds *(c)*	**116**	**28**	**Monthly-yearly**	***(c)***	63	-	Monthly-yearly	*(c)*
Total	**$ 234**	**$ 46**			$ 194	$ 24		

(a) Hedge funds include multi-strategy funds that utilize a variety of investment strategies and equity long-short hedge funds that include various funds that invest over both long-term investment and short-term investment horizons.

(b) Private equity funds primarily include numerous venture capital funds that invest in various sectors of the economy. Private equity funds do not have redemption rights. Distributions from such funds will be received as the underlying investments in the funds are liquidated.

(c) Other funds include various market neutral, leveraged loans, real estate and structured credit funds. Redemption notice periods vary by fund.

N/A Not applicable.

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Notes to Consolidated Financial Statements (continued)

Note 8 Net interest revenue

Net interest revenue	Quarter ended			Year-to-date	
(in millions)	**Sept. 30, 2012**	June 30, 2012	Sept. 30, 2011	**Sept. 30, 2012**	Sept. 30, 2011
Interest revenue					
Non-margin loans	**$ 167**	$ 169	$ 168	**$ 505**	$ 510
Margin loans	**42**	42	32	**126**	91
Securities:					
Taxable	**477**	484	493	**1,464**	1,449
Exempt from federal income taxes	**24**	20	10	**59**	23
Total securities	**501**	504	503	**1,523**	1,472
Deposits in banks	**99**	93	153	**306**	425
Deposits with the Federal Reserve and other central banks	**33**	39	47	**115**	90
Federal funds sold and securities purchased under resale agreements	**8**	9	9	**26**	20
Trading assets	**27**	19	16	**63**	55
Total interest revenue	**877**	875	928	**2,664**	2,663
Interest expense					
Deposits	**36**	43	66	**122**	182
Federal funds purchased and securities sold under repurchase agreements	**(2)**	-	1	**(2)**	3
Trading liabilities	**7**	6	6	**17**	28
Other borrowed funds	**3**	6	4	**14**	16
Customer payables	**2**	2	2	**6**	5
Long-term debt	**82**	84	74	**259**	225
Total interest expense	**128**	141	153	**416**	459
Net interest revenue	**$ 749**	$ 734	$ 775	**$ 2,248**	$ 2,204

Note 9 Employee benefit plans

The components of net periodic benefit cost are as follows:

Net periodic benefit cost (credit)	Quarter ended								
	Sept. 30, 2012			June 30, 2012			Sept. 30, 2011		
(in millions)	**Domestic pension benefits**	**Foreign pension benefits**	**Health care benefits**	Domestic pension benefits	Foreign pension benefits	Health care benefits	Domestic pension benefits	Foreign pension benefits	Health care benefits
Service cost	**$ 15**	**$ 8**	**$ 1**	$ 15	$ 8	$ 1	$ 16	$ 8	$ 1
Interest cost	**42**	**9**	**3**	42	9	3	44	9	3
Expected return on assets	**(68)**	**(12)**	**(2)**	(68)	(12)	(2)	(71)	(11)	(2)
Other	**38**	**4**	**3**	38	3	3	28	4	2
Net periodic benefit cost	**$ 27**	**$ 9**	**$ 5**	$ 27	$ 8	$ 5	$ 17	$ 10	$ 4

Net periodic benefit cost (credit)	Year-to-date					
	Sept. 30, 2012			Sept. 30, 2011		
(in millions)	**Domestic pension benefits**	**Foreign pension benefits**	**Health care benefits**	Domestic pension benefits	Foreign pension benefits	Health care benefits
Service cost	**$ 45**	**$ 24**	**$ 3**	$ 48	$ 24	$ 3
Interest cost	**126**	**27**	**9**	132	26	9
Expected return on assets	**(204)**	**(36)**	**(6)**	(212)	(33)	(6)

Other	**114**	**10**	**9**	74	12	6
Net periodic benefit cost	**$ 81**	**$ 25**	**$ 15**	$ 42	$ 29	$ 12

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Notes to Consolidated Financial Statements (continued)

Note 10 Restructuring charges

Operational excellence initiatives

In the fourth quarter of 2011, we announced our operational excellence initiatives which include an expense reduction initiative that was expected to impact approximately 1,500 positions or approximately 3% of our global workforce, as well as additional initiatives to transform operations, technology and corporate services that will increase productivity and reduce the growth rate of expenses. Severance payments related to these positions are primarily paid over the salary continuance period in accordance with the separation plan. In 2011, we recorded a pre-tax restructuring charge of $107 million related to the operational excellence initiatives. The aggregate restructuring charge is included in the merger and integration, litigation and restructuring charges expense category on the income statement.

The following table presents the activity in the restructuring reserve related to the operational excellence initiatives through Sept. 30, 2012.

Operational excellence initiatives 2011

restructuring charge reserve activity

(in millions)	Severance	Other	Total
Original restructuring charge	$ 78	$ 29	$ 107
Recoveries	(2)	-	(2)
Utilization	(25)	(29)	(54)
Balance at June 30, 2012	51	-	51
Recoveries	(2)	-	(2)
Utilization	(7)	-	(7)
Balance at Sept. 30, 2012	**$ 42**	**$ -**	**$ 42**

This restructuring charge was recorded in the Other segment as it is a corporate initiative and not directly related to the operating performance of the businesses. The table below presents the restructuring charge if it had been allocated by business.

Operational excellence initiatives 2011

restructuring charge (recovery) by business

(in millions)	**3Q12**	2Q12	Total charges since inception
Investment Management	**$ (1)**	$ 4	$ 20
Investment Services	**-**	-	39
Other segment (including Business Partners)	**(1)**	(4)	44
Total restructuring charge (recovery)	**$ (2)**	$ -	$ 103

Global location strategy

BNY Mellon continues to execute its global location strategy. This strategy includes migrating positions to our global growth centers and was expected to result in moving and/or eliminating approximately 2,400 positions. Severance payments related to these positions are primarily paid over the salary continuance period in accordance with the separation plan. In 2009, we recorded a pre-tax restructuring charge of $139 million related to this strategy.

The following table presents the activity in the restructuring reserve related to the global location strategy through Sept. 30, 2012.

Global location strategy 2009

restructuring charge reserve activity

(in millions)	Severance	Asset write-offs/ other	Total
Original restructuring charge	$ 102	$ 37	$ 139
Additional charges	3	6	9
Utilization	(100)	(32)	(132)
Balance at June 30, 2012	5	11	16
Recoveries	(1)	-	(1)
Utilization	(1)	-	(1)
Balance at Sept. 30, 2012	**$ 3**	**$ 11**	**$ 14**

This restructuring charge was recorded in the Other segment as it is a corporate initiative and not directly related to the operating performance of the businesses. The table below presents the restructuring charge if it had been allocated by business.

Global location strategy 2009 restructuring charge (recovery) by business

(in millions)	**3Q12**	2Q12	3Q11	Total charges since inception
Investment Management	**$ -**	$ -	$ (2)	$ 54
Investment Services	**(1)**	(4)	(4)	64
Other segment (including Business Partners)	**-**	-	1	29
Total restructuring charge (recovery)	**$ (1)**	$ (4)	$ (5)	$ 147

Note 11 Income taxes

The statutory federal income tax rate is reconciled to our effective income tax rate below:

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Notes to Consolidated Financial Statements (continued)

Effective tax rate	**Nine months ended**	
	Sept. 30, 2012	Sept. 30, 2011
Federal rate	**35.0%**	35.0%
State and local income taxes, net of federal income tax benefit	**2.3**	3.0
Tax credits	**(5.0)**	(1.9)
Tax-exempt income	**(3.6)**	(2.6)
Foreign operations	**(5.1)**	(3.8)
Other net	**(0.3)**	(1.1)
Effective tax rate	**23.3%**	28.6%

Our total tax reserves as of Sept. 30, 2012 were $323 million compared with $263 million at June 30, 2012. If these tax reserves were unnecessary, $323 million would affect the effective tax rate in future periods. We recognize accrued interest and penalties, if applicable, related to income taxes in income tax expense. Included in the balance sheet as of Sept. 30, 2012 is accrued interest, where applicable, of $35 million. The additional tax expense related to interest for the nine months ended Sept. 30, 2012 was $10 million compared with $5 million for the nine months ended Sept. 30, 2011.

As previously disclosed, on Nov. 10, 2009, BNY Mellon filed a petition with the U.S. Tax Court challenging the IRS disallowance of certain foreign tax credits claimed for the 2001 and 2002 tax years. The aggregate tax for all of the years in question is approximately $900 million, including interest. BNY Mellon continues to believe the tax treatment of the transaction was consistent with statutory and judicial authority existing at the time of the transaction. Trial was held from April 16 to May 17, 2012. See Note 18 of the Notes to Consolidated Financial Statements for additional information. The U.S. Tax Court could reach a decision within the next 12 months. If there is an adverse decision, BNY Mellon will be required to re-evaluate its uncertain tax position with respect to this matter.

Pursuant to ASC 740 (FASB Interpretation 48), it is reasonably possible the total reserve for uncertain tax positions could increase within the next 12 months by an amount up to $837 million as a result of the above matter and adjustments related to tax years that are still subject to examination.

Our federal income tax returns are closed to examination for all periods through 2002. The years 2003 through 2006 remain open to examination. The years 2007 and 2008 are closed for further examination, however one matter is before the Internal Revenue Service (IRS) appeals. Our New York State and New York City income tax returns are closed to examination

through 2010. Our United Kingdom income tax returns are closed to examination through 2008.

Note 12 Securitizations and variable interest entities

Variable interest entities (VIEs)

Accounting guidance on the consolidation of VIEs is included in ASC 810, *Consolidation*, and ASU 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.

Effective Jan. 1, 2010, the FASB approved ASU 2010-10 Amendments for Certain Investment Funds, which defers the requirements of ASU 2009-17 for asset managers interests in entities that apply the specialized accounting guidance for investment companies or that have the attributes of investment companies and for interests in money market funds.

Accounting guidance on the consolidation of VIEs applies to certain entities in which the equity investors:

do not have sufficient equity at risk for the entity to finance its activities without additional financial support; or lack one or more of the following characteristics of a controlling financial interest:

- The power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity s economic performance (ASU 2009-17 model).

- The direct or indirect ability to make decisions about the entity s activities through voting rights or similar rights (ASC 810 model).

- The obligation to absorb the expected losses of the entity.

- The right to receive the expected residual returns of the entity.

BNY Mellon s VIEs generally include retail, institutional and alternative investment funds offered to its retail and institutional customers in which it acts as the funds investment manager. BNY Mellon earns management fees on these funds as well as performance fees in certain funds. It may also provide start-up capital in its new funds. These VIEs are included in the scope of ASU 2010-10 and

Notes to Consolidated Financial Statements (continued)

are reviewed for consolidation based on the guidance in ASC 810.

BNY Mellon applies ASC 810 to its mutual funds, hedge funds, private equity funds, collective investment funds and real estate investment trusts. If these entities are determined to be VIEs, primary beneficiary calculations are prepared in accordance with ASC 810 to determine whether or not BNY Mellon is the primary beneficiary and required to consolidate the VIE. The primary beneficiary of a VIE is the party that absorbs a majority of the variable interests expected losses, receives a majority of its expected residual returns or both.

The primary beneficiary calculations include estimates of ranges and probabilities of losses and returns from the funds. The calculated expected gains and expected losses are allocated to the variable interest holders of the funds, which are generally the funds investors and which may include BNY Mellon, in order to determine which entity is required to consolidate the VIE, if any.

BNY Mellon has other VIEs, including securitization trusts, which are no longer considered qualified special purpose entities, and CLOs, in which BNY Mellon serves as the investment manager. In addition, we provide trust and custody services for a fee to entities sponsored by corporations in which we have no other interest. These VIEs are evaluated under the guidance included in ASU 2009-17. BNY Mellon has two securitizations and several CLOs, which are assessed for consolidation in accordance with ASU 2009-17.

The primary beneficiary of these VIEs is the entity whose variable interests provide it with a controlling financial interest, which includes the power to direct the activities that most significantly impact the VIE s economic performance and the obligation to absorb losses of the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE.

In order to determine if it has a controlling financial interest in these VIEs, BNY Mellon assesses the VIE s purpose and design along with the risks it was designed to create and pass through to its variable interest holders. We also assess our involvement in the VIE and the involvement of any other variable interest holders in the VIE.

Generally, as the sponsor and the manager of its VIEs, BNY Mellon has the power to control the

activities that significantly impact the VIE s economic performance. Both a qualitative and quantitative analysis of BNY Mellon s variable interests are performed to determine if BNY Mellon has the obligation to absorb losses of the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE. The analyses included assessments related to the expected performance of the VIEs and its related impact on BNY Mellon s seed capital, management fees or residual interests in the VIEs. We also assess any potential impact the VIE s expected performance has on our performance fees.

The following tables present the incremental assets and liabilities included in BNY Mellon s consolidated financial statements, after applying intercompany eliminations, as of Sept. 30, 2012 and Dec. 31, 2011, based on the assessments performed in accordance with ASC 810 and ASU 2009-17. The net assets of any consolidated VIE are solely available to settle the liabilities of the VIE and to settle any investors ownership liquidation requests, including any seed capital invested in the VIE by BNY Mellon.

Investments consolidated under ASC 810 and ASU 2009-17

at Sept. 30, 2012

(in millions)	Investment Management funds	Securitizations	Total consolidated investments
Available-for-sale	**$ -**	**$ 492**	**$ 492**
Trading assets	**10,821**	**-**	**10,821**
Other assets	**548**	**-**	**548**
Total assets	**$ 11,369**	**$ 492**	**$ 11,861**
Trading liabilities	**10,018**	**-**	**10,018**

Other liabilities	**28**	**462**	**490**
Total liabilities	**$ 10,046**	**$ 462**	**$ 10,508**
Non-redeemable noncontrolling interests	**$ 781**	**$ -**	**$ 781**

Investments consolidated under ASC 810 and ASU 2009-17

at Dec. 31, 2011

(in millions)	Investment Management funds	Securitizations	Total consolidated investments
Available-for-sale	$ -	$ 479	$ 479
Trading assets	10,751	-	10,751
Other assets	596	-	596
Total assets	$ 11,347	$ 479	$ 11,826
Trading liabilities	10,053	-	10,053
Other liabilities	32	443	475
Total liabilities	$ 10,085	$ 443	$ 10,528
Non-redeemable noncontrolling interests	$ 670	$ -	$ 670

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Notes to Consolidated Financial Statements (continued)

BNY Mellon voluntarily provided capital support agreements to certain VIEs (see below). With the exception of these agreements, we are not contractually required to provide financial or any other support to any of our VIEs. Additionally, creditors of any consolidated VIEs do not have any recourse to the general credit of BNY Mellon.

Non-consolidated VIEs

As of Sept. 30, 2012 and Dec. 31, 2011, the following assets related to the VIEs, where BNY Mellon is not the primary beneficiary, are included in our consolidated financial statements.

Non-consolidated VIEs at Sept. 30, 2012

(in millions)	Assets	Liabilities	Maximum loss exposure
Other	$ 97	$ -	$ 97

Non-consolidated VIEs at Dec. 31, 2011

(in millions)	Assets	Liabilities	Maximum loss exposure
Trading	$ 1	$ -	$ 1
Other	41	-	41
Total	$ 42	$ -	$ 42

The maximum loss exposure indicated in the above tables relates solely to BNY Mellon s seed capital or residual interests invested in the VIEs.

Consolidated credit supported VIEs

At Sept. 30, 2012, there were no remaining consolidated credit supported VIEs. At Dec. 31, 2011, BNY Mellon s financial statements included certain funds created solely with securities subject to credit support agreements where we agreed to absorb the majority of loss.

Consolidated credit supported VIEs at Dec. 31, 2011

(in millions)	Assets	Liabilities	Maximum loss exposure
Available-for-sale	$ 14	$ -	$ 14
Other	-	22	10
Total	$ 14	$ 22	$ 24

Note 13 Preferred stock

The table below presents a summary of BNY Mellon s preferred stock, par value $0.01, issued and outstanding at Sept. 30, 2012.

Preferred stock summary

(dollars in millions, unless otherwise noted)

Series	Description	Total shares issued and outstanding	Liquidation preference per share *(in dollars)*	Carrying value at Sept. 30, 2012	Per annum dividend rate	Dividends paid per share in three months ended Sept. 30, 2012 *(in dollars)*
Series A	Noncumulative Perpetual Preferred Stock	5,001	$ 100,000	$ 500	Greater of (i) three-month LIBOR plus 0.565% for the related distribution period; or (ii) 4.000%	$ 1,022.22
Series C	Noncumulative Perpetual Preferred Stock	5,500	$ 100,000	$ 536 *(a)*	5.200%	N/A

(a) The carrying value is recorded net of issuance costs.
N/A The Series C noncumulative perpetual preferred stock was issued after dividends were declared in the third quarter of 2012.

On June 20, 2012, BNY Mellon issued the Series A Noncumulative Perpetual Preferred Stock (the Series A preferred stock) and on Sept. 19, 2012, BNY Mellon issued 22 million Series C Depositary Shares, each representing a 1/4,000th interest in a share of BNY Mellon s Series C preferred stock. Holders of these preferred stock issues are entitled to

receive dividends on each dividend payment date (March 20, June 20, September 20 and December 20 of each year), when, as and if declared by BNY Mellon s Board of Directors. BNY Mellon s ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, shares of our common stock or any of our shares that rank junior to the preferred

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Notes to Consolidated Financial Statements (continued)

stock as to the payment of dividends and/or the distribution of any assets on any liquidation, dissolution or winding-up of BNY Mellon will be prohibited, subject to certain restrictions, in the event that we do not declare and pay in full preferred dividends for the then current dividend period of the Series A preferred stock or the last preceding dividend period of the Series C preferred stock. All of the outstanding shares of the Series A preferred stock are owned by Mellon Capital IV, which will pass through any dividend on the Series A preferred stock to the holders of its Normal Preferred Capital Securities. All of the outstanding shares of the Series C preferred stock are held by the depositary of the depositary shares, which will pass through the applicable portion of any dividend on the Series C Preferred Stock to the holders of record of the depositary shares.

The preferred stock is not subject to the operation of a sinking fund and is not convertible into, or exchangeable for, shares of our common stock or any other class or series of our other securities. Subject to the restrictions in BNY Mellon s 2007 replacement capital covenant, we may redeem the Series A preferred stock, in whole or in part, at our option. We may also, at our option, redeem the shares of the Series C preferred stock in whole or in part, on or after the dividend payment date in September 2017, or in whole but not in part at any time within 90 days following a regulatory capital treatment event (as defined in the Certificate of Designations of the Series C preferred stock).

The terms of the Series A preferred stock and the Series C preferred stock are more fully described in each of their Certificate of Designations, each of which is filed as an Exhibit to this Form 10-Q.

Note 14 Other comprehensive income

Components of other comprehensive income

	Quarter ended								
	Sept. 30, 2012			June 30, 2012			Sept. 30, 2011		
(in millions)	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Foreign currency translation adjustment arising during the period	**$ 134**	**$ 35**	**$ 169**	$ (223)	$ (42)	$ (265)	$ (340)	$ (44)	$ (384)
Unrealized gain (loss) on assets available-for-sale:									
Unrealized gain (loss) arising during period	**948**	**(310)**	**638**	318	(121)	197	61	(31)	30
Reclassification adjustment	**(22)**	**7**	**(15)**	(50)	15	(35)	2	-	2
Net unrealized gain (loss) on assets available-for-sale	**926**	**(303)**	**623**	268	(106)	162	63	(31)	32
Defined benefit plans:									
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	**45**	**(17)**	**28**	42	(18)	24	31	(11)	20
Total defined benefit plans	**45**	**(17)**	**28**	42	(18)	24	31	(11)	20
Unrealized gain (loss) on cash flow hedges:									
Unrealized hedge gain (loss) arising during period	**3**	**(2)**	**1**	8	(2)	6	49	(20)	29
Reclassification adjustment	**(1)**	**1**	**-**	(9)	3	(6)	1	-	1
Net unrealized gain (loss) on cash flow hedges	**2**	**(1)**	**1**	(1)	1	-	50	(20)	30
Total other comprehensive income (loss)	**$ 1,107**	**$ (286)**	**$ 821**	$ 86	$ (165)	$ (79)	$ (196)	$ (106)	$ (302)

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Notes to Consolidated Financial Statements (continued)

Components of other comprehensive income

	Nine months ended					
	Sept. 30, 2012			Sept. 30, 2011		
(in millions)	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Foreign currency translation adjustment arising during the period	**$ 40**	**$ 36**	**$ 76**	$ (27)	$ 2	$ (25)
Unrealized gain (loss) on assets available-for-sale:						
Unrealized gain (loss) arising during period	**1,644**	**(572)**	**1,072**	531	(207)	324
Reclassification adjustment	**(112)**	**38**	**(74)**	(51)	23	(28)
Net unrealized gain (loss) on assets available-for-sale	**1,532**	**(534)**	**998**	480	(184)	296
Defined benefit plans:						
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	**131**	**(52)**	**79**	85	(31)	54
Total defined benefit plans	**131**	**(52)**	**79**	85	(31)	54
Unrealized gain (loss) on cash flow hedges:						
Unrealized hedge gain (loss) arising during period	**12**	**(5)**	**7**	49	(21)	28
Reclassification adjustment	**(5)**	**2**	**(3)**	2	-	2
Net unrealized gain (loss) on cash flow hedges	**7**	**(3)**	**4**	51	(21)	30
Total other comprehensive income (loss)	**$ 1,710**	**$ (553)**	**$ 1,157**	$ 589	$ (234)	$ 355

Note 15 Fair value measurement

The guidance related to Fair Value Measurement included in ASC 820 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. It establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and expands the disclosures about instruments measured at fair value. ASC 820 requires consideration of a company s own creditworthiness when valuing liabilities.

The standard provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The objective is to determine from weighted indicators of fair value a reasonable point within the range that is most representative of fair value under current market conditions.

Determination of fair value

The following is a description of our valuation methodologies for assets and liabilities measured at fair value. We have established processes for determining fair values. Fair value is based upon quoted market prices in active markets, where available. For financial instruments where quotes from recent exchange transactions are not available, we determine fair value based on discounted cash flow analysis, comparison to similar instruments, and the use of financial models. Discounted cash flow analysis is dependent upon estimated future cash flows and the level of interest rates. Model-based pricing uses inputs of observable prices, where available, for interest rates, foreign exchange rates, option volatilities and other factors. Models are benchmarked and validated by an independent internal risk management function. Our valuation process takes into consideration factors such as counterparty credit quality, liquidity, concentration concerns, and observability of model parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

Most derivative contracts are valued using internally developed models which are calibrated to observable market data and employ standard market pricing theory for their valuations. An initial risk-neutral valuation is performed on each position assuming time-discounting based on a AA credit curve. Then, to arrive at a fair value that incorporates counterparty credit risk, a credit adjustment is made to these results by discounting each trade s expected exposures to the counterparty using the counterparty s credit spreads, as implied by the

Notes to Consolidated Financial Statements (continued)

credit default swap market. We also adjust expected liabilities to the counterparty using BNY Mellon s own credit spreads, as implied by the credit default swap market. Accordingly, the valuation of our derivative position is sensitive to the current changes in our own credit spreads as well as those of our counterparties.

In certain cases, recent prices may not be observable for instruments that trade in inactive or less active markets. Upon evaluating the uncertainty in valuing financial instruments subject to liquidity issues, we make an adjustment to their value. The determination of the liquidity adjustment includes the availability of external quotes, the time since the latest available quote and the price volatility of the instrument.

Certain parameters in some financial models are not directly observable and, therefore, are based on management s estimates and judgments. These financial instruments are normally traded less actively. We apply valuation adjustments to mitigate the possibility of error and revision in the model-based estimate value. Examples include products where parameters such as correlation and recovery rates are unobservable.

The methods described above for instruments that trade in inactive or less active markets may produce a current fair value calculation that may not be indicative of net realizable value or reflective of future fair values. We believe our methods of determining fair value are appropriate and consistent with other market participants. However, the use of different methodologies or different assumptions to value certain financial instruments could result in a different estimate of fair value.

Valuation hierarchy

ASC 820 established a three-level valuation hierarchy for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are described below.

Level 1: Inputs to the valuation methodology are recent quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 1 assets and liabilities include debt and equity securities and derivative financial instruments actively traded on exchanges, and U.S. Treasury securities that are

actively traded in highly liquid over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices, for example, quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs that are observable or can be corroborated, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 assets and liabilities include debt instruments that are traded less frequently than exchange-traded securities and derivative instruments whose model inputs are observable in the market or can be corroborated by market observable data. Examples in this category are certain variable and fixed rate agency and non-agency securities, corporate debt securities and derivative contracts.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Examples in this category include interests in certain securitized financial assets, certain private equity investments, and derivative contracts that are highly structured or long-dated.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities

Where quoted prices are available in an active market, we classify the securities within Level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include highly liquid government bonds, money market mutual funds and exchange-traded equities.

If quoted market prices are not available, we estimate fair value using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain agency and non-agency mortgage-backed securities, sovereign debt, commercial mortgage-

Notes to Consolidated Financial Statements (continued)

backed securities, European floating rate notes, corporate bonds and foreign covered bonds.

For securities where quotes from recent transactions are not available for identical securities, we determine fair value primarily based on pricing sources with reasonable levels of price transparency that employ financial models or obtain comparisons to similar instruments to arrive at consensus prices.

Specifically, the pricing sources obtain recent transactions for similar types of securities (e.g., vintage, position in the securitization structure) and ascertain variables such as discount rate and speed of prepayment for the types of transaction and apply such variables to similar types of bonds. We view these as observable transactions in the current marketplace and classify such securities as Level 2. Pricing sources discontinue pricing any specific security whenever they determine there is insufficient observable data to provide a good faith opinion on price.

In addition, we have significant investments in more actively traded agency RMBS and other types of securities such as sovereign debt. The pricing sources derive the prices for these securities largely from quotes they obtain from three major inter-dealer brokers. The pricing sources receive their daily observed trade price and other information feeds from the inter-dealer brokers.

For securities with bond insurance, the financial strength of the insurance provider is analyzed and that information is included in the fair value assessment for such securities.

In certain cases where there is limited activity or less transparency around inputs to the valuation, we classify those securities in Level 3 of the valuation hierarchy. Securities classified within Level 3 primarily include other debt securities and securities of state and political subdivisions.

At Sept. 30, 2012, approximately 99% of our securities were valued by pricing sources with reasonable levels of price transparency. Less than 1% of our securities were priced based on economic models and non-binding dealer quotes, and are included in Level 3 of the ASC 820 hierarchy.

Consolidated collateralized loan obligations

BNY Mellon values assets in consolidated CLOs using observable market prices observed from the secondary loan market. The returns to the note holders are solely dependent on the assets and accordingly equal the value of those assets. Based on the structure of the CLOs, the valuation of the assets is attributable to the senior note holders. Changes in the values of assets and liabilities are reflected in the income statement as investment income and interest of investment management fund note holders, respectively.

Derivatives

We classify exchange-traded derivatives valued using quoted prices in Level 1 of the valuation hierarchy. Examples include exchanged-traded equity and foreign exchange options. Since few other classes of derivative contracts are listed on an exchange, most of our derivative positions are valued using internally developed models that use as their basis readily observable market parameters, and we classify them in Level 2 of the valuation hierarchy. Such derivatives include basic swaps and options and credit default swaps.

Derivatives valued using models with significant unobservable market parameters in markets that lack two-way flow are classified in Level 3 of the valuation hierarchy. Examples include long-dated interest rate or currency swaps and options, where parameters may be unobservable for longer maturities; and certain products, where correlation rates are unobservable. The fair value of these derivatives compose less than 1% of our derivative financial instruments. Additional disclosures of derivative instruments are provided in Note 17 of the Notes to Consolidated Financial Statements.

Loans and unfunded lending-related commitments

Where quoted market prices are not available, we generally base the fair value of loans and unfunded lending-related commitments on observable market prices of similar instruments, including bonds, credit derivatives and loans with similar characteristics. If observable market prices are not available, we base the fair value on estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loans or the unfunded lending-related commitments.

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Notes to Consolidated Financial Statements (continued)

Unrealized gains and losses on unfunded lending-related commitments carried at fair value are classified in Other assets and Other liabilities, respectively. Loans and unfunded lending-related commitments carried at fair value are generally classified within Level 2 of the valuation hierarchy.

Seed capital

In our Investment Management business we manage investment assets, including equities, fixed income, money market and alternative investment funds for institutions and other investors; as part of that activity, we make seed capital investments in certain funds. Seed capital is included in other assets. When applicable, we value seed capital based on the published NAV of the fund. We include funds in which ownership interests in the fund are publicly traded in an active market and institutional funds in which investors trade in and out daily in Level 1 of the valuation hierarchy. We include open-end funds where investors are allowed to sell their ownership interest back to the fund less frequently than daily and where our interest in the fund contains no other rights or obligations in Level 2 of the valuation hierarchy. However, we generally include investments in funds that allow investors to sell their ownership interest back to the fund less frequently than monthly in Level 3, unless actual redemption prices are observable.

For other types of investments in funds, we consider all of the rights and obligations inherent in our ownership interest, including the reported NAV as well as other factors that affect the fair value of our interest in the fund. To the extent the NAV measurements reported for the investments are based on unobservable inputs or include other rights and obligations (e.g., obligation to meet cash calls), we generally classify them in Level 3 of the valuation hierarchy.

Certain interests in securitizations

For certain interests in securitizations which are classified in securities available-for-sale, trading assets and long-term debt, we use discounted cash flow models which generally include assumptions of

projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and estimates of payments to third-party investors. When available, we compare our fair value estimates and assumptions to market activity and to the actual results of the securitized portfolio.

Private equity investments

Our Other segment includes holdings of nonpublic private equity investment through funds managed by third-party investment managers. We value private equity investments initially based upon the transaction price, which we subsequently adjust to reflect expected exit values as evidenced by financing and sale transactions with third parties or through ongoing reviews by the investment managers.

Private equity investments also include publicly held equity investments, generally obtained through the initial public offering of privately held equity investments. These equity investments are often held in a partnership structure. Publicly held investments are marked-to-market at the quoted public value less adjustments for regulatory or contractual sales restrictions or adjustments to reflect the difficulty in selling a partnership interest.

Discounts for restrictions are quantified by analyzing the length of the restriction period and the volatility of the equity security. Publicly held private equity investments are primarily classified in Level 2 of the valuation hierarchy.

The following tables present the financial instruments carried at fair value at Sept. 30, 2012 and Dec. 31, 2011, by caption on the consolidated balance sheet and by ASC 820 valuation hierarchy (as described above). We have included credit ratings information in certain of the tables because the information indicates the degree of credit risk to which we are exposed, and significant changes in ratings classifications could result in increased risk for us. There were no transfers between Level 1 and Level 2 during the third quarter of 2012.

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Notes to Consolidated Financial Statements (continued)

Assets and liabilities measured at fair value on a recurring basis at Sept. 30, 2012

(dollar amounts in millions)	Level 1	Level 2	Level 3	Netting *(a)*	Total carrying value
Available-for-sale securities:					
U.S. Treasury	$ 19,565	$ -	$ -	$ -	$ 19,565
U.S. Government agencies	-	1,086	-	-	1,086
Sovereign debt	41	9,776	-	-	9,817
State and political subdivisions *(b)*	-	6,097	44	-	6,141
Agency RMBS	-	35,074	-	-	35,074
Alt-A RMBS	-	284	-	-	284
Prime RMBS	-	760	-	-	760
Subprime RMBS	-	435	-	-	435
Other RMBS	-	2,751	-	-	2,751
Commercial MBS	-	3,241	-	-	3,241
Asset-backed CLOs	-	1,189	-	-	1,189
Other asset-backed securities	-	1,892	-	-	1,892
Equity securities	27	-	-	-	27
Money market funds *(b)*	1,608	-	-	-	1,608
Corporate bonds	-	1,863	-	-	1,863
Other debt securities	-	2,339	-	-	2,339
Foreign covered bonds	1,896	1,980	-	-	3,876
Alt-A RMBS *(c)*	-	2,012	-	-	2,012
Prime RMBS *(c)*	-	1,063	-	-	1,063
Subprime RMBS *(c)*	-	125	-	-	125
Total available-for-sale	23,137	71,967	44	-	95,148
Trading assets:					
Debt and equity instruments *(d)*	1,137	3,962	50	-	5,149
Derivative assets *(e)*:					
Interest rate	130	23,964	29	N/A	
Foreign exchange	2,787	130	1	N/A	
Equity	114	218	38	N/A	
Total derivative assets	3,031	24,312	68	(23,370)	4,041
Total trading assets	4,168	28,274	118	(23,370)	9,190
Other assets *(f)*	53	942	128	-	1,123
Subtotal assets of operations at fair value	**27,358**	**101,183**	**290**	**(23,370)**	**105,461**
Percentage of assets prior to netting	21%	79%	-%		
Assets of consolidated investment management funds:					
Trading assets	167	10,654	-	-	10,821
Other assets	415	133	-	-	548
Total assets of consolidated investment management funds	582	10,787	-	-	11,369
Total assets	**$ 27,940**	**$ 111,970**	**$ 290**	**$ (23,370)**	**$ 116,830**
Percentage of assets prior to netting	20%	80%	-%		
Trading liabilities:					
Debt and equity instruments	$ 973	$ 846	$ -	$ -	$ 1,819
Derivative liabilities *(e)*:					
Interest rate	-	24,720	232	N/A	
Foreign exchange	2,820	85	-	N/A	
Equity	77	328	68	N/A	
Total derivative liabilities	2,897	25,133	300	(22,395)	5,935
Total trading liabilities	3,870	25,979	300	(22,395)	7,754
Long-term debt *(b)*	-	345	-	-	345
Other liabilities *(g)*	366	444	-	-	810

Subtotal liabilities at fair value	**4,236**	**26,768**	**300**	**(22,395)**	**8,909**
Percentage of liabilities prior to netting	14%	85%	1%		
Liabilities of consolidated investment management funds:					
Trading liabilities	-	10,018	-	-	10,018
Other liabilities	-	28	-	-	28
Total liabilities of consolidated investment management funds	-	10,046	-	-	10,046
Total liabilities	**$ 4,236**	**$ 36,814**	**$ 300**	**$ (22,395)**	**$ 18,955**
Percentage of liabilities prior to netting	10%	89%	1%		

(a) *ASC 815 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral. Netting cannot be disaggregated by product.*
(b) *Includes certain interests in securitizations.*
(c) *Previously included in the Grantor Trust.*
(d) *Includes loans classified as trading assets and certain interests in securitizations.*
(e) *The Level 1, 2 and 3 fair values of derivative assets and derivative liabilities are presented on a gross basis.*
(f) *Includes private equity investments, seed capital, a brokerage account, and derivatives in designated hedging relationships.*
(g) *Includes the fair value adjustment for certain unfunded lending-related commitments and derivatives in designated hedging relationships and support agreements.*

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Notes to Consolidated Financial Statements (continued)

Assets and liabilities measured at fair value on a recurring basis at Dec. 31, 2011

(dollar amounts in millions)	Level 1	Level 2	Level 3	Netting *(a)*	Total carrying value
Available-for-sale securities:					
U.S. Treasury	$ 17,326	$ -	$ -	$ -	$ 17,326
U.S. Government agencies	-	958	-	-	958
Sovereign debt	44	11,910	-	-	11,954
State and political subdivisions *(b)*	-	2,694	45	-	2,739
Agency RMBS	-	26,796	-	-	26,796
Alt-A RMBS	-	273	-	-	273
Prime RMBS	-	815	-	-	815
Subprime RMBS	-	418	-	-	418
Other RMBS	-	903	-	-	903
Commercial MBS	-	3,339	-	-	3,339
Asset-backed CLOs	-	1,444	-	-	1,444
Other asset-backed securities	-	532	-	-	532
Equity securities	9	21	-	-	30
Money market funds *(b)*	973	-	-	-	973
Corporate bonds	-	1,738	-	-	1,738
Other debt securities	-	2,622	3	-	2,625
Foreign covered bonds	1,820	605	-	-	2,425
Alt-A RMBS *(c)*	-	1,879	-	-	1,879
Prime RMBS *(c)*	-	1,175	-	-	1,175
Subprime RMBS *(c)*	-	125	-	-	125
Total available-for-sale	20,172	58,247	48	-	78,467
Trading assets:					
Debt and equity instruments *(d)*	485	1,655	63	-	2,203
Derivative assets *(e)*:					
Interest rate	164	26,434	54	N/A	
Foreign exchange	4,519	113	-	N/A	
Equity	91	284	43	N/A	
Other	-	3	-	N/A	
Total derivative assets	4,774	26,834	97	(26,047)	5,658
Total trading assets	5,259	28,489	160	(26,047)	7,861
Loans	-	10	-	-	10
Other assets *(f)*	672	1,019	157	-	1,848
Subtotal assets of operations at fair value	**26,103**	**87,765**	**365**	**(26,047)**	**88,186**
Percentage of assets prior to netting	23%	77%	-%		
Assets of consolidated investment management funds:					
Trading assets	323	10,428	-	-	10,751
Other assets	453	143	-	-	596
Total assets of consolidated investment management funds	776	10,571	-	-	11,347
Total assets	**$ 26,879**	**$ 98,336**	**$ 365**	**$ (26,047)**	**$ 99,533**
Percentage of assets prior to netting	22%	78%	-%		
Trading liabilities:					
Debt and equity instruments	$ 418	$ 537	$ -	$ -	$ 955
Derivative liabilities*(e)*:					
Interest rate	-	27,201	239	N/A	
Foreign exchange	4,311	44	-	N/A	
Equity	55	200	75	N/A	
Total derivative liabilities	4,366	27,445	314	(25,009)	7,116
Total trading liabilities	4,784	27,982	314	(25,009)	8,071
Long-term debt *(b)*	-	326	-	-	326
Other liabilities *(g)*	14	368	-	-	382
Subtotal liabilities at fair value	**4,798**	**28,676**	**314**	**(25,009)**	**8,779**
Percentage of liabilities prior to netting	14%	85%	1%		

Liabilities of consolidated investment management funds:					
Trading liabilities	-	10,053	-	-	10,053
Other liabilities	2	30	-	-	32
Total liabilities of consolidated investment management funds	2	10,083	-	-	10,085
Total liabilities	**$ 4,800**	**$ 38,759**	**$ 314**	**$ (25,009)**	**$ 18,864**
Percentage of liabilities prior to netting	11%	88%	1%		

(a) *ASC 815 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral. Netting cannot be disaggregated by product.*

(b) *Includes certain interests in securitizations.*

(c) *Previously included in the Grantor Trust.*

(d) *Includes loans classified as trading assets and certain interests in securitizations.*

(e) *The Level 1, 2 and 3 fair values of derivative assets and derivative liabilities are presented on a gross basis.*

(f) *Includes private equity investments, seed capital, a brokerage account, and derivatives in designated hedging relationships.*

(g) *Includes the fair value adjustment for certain unfunded lending-related commitments and derivatives in designated hedging relationships and support agreements.*

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Notes to Consolidated Financial Statements (continued)

Details of certain items measured at fair value on a recurring basis

	Sept. 30, 2012					Dec. 31, 2011				
		Ratings					Ratings			
(dollar amounts in millions)	Total carrying value *(a)*	AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+ and lower	Total carrying value *(a)*	AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+ and lower
Alt-A RMBS, originated in:										
2006-2007	$ 114	-%	-%	-%	100%	$ 99	-%	-%	-%	100%
2005	108	-	-	-	100	113	-	-	-	100
2004 and earlier	62	10	10	24	56	61	27	13	47	13
Total Alt-A RMBS	$ 284	2%	2%	6%	90%	$ 273	6%	3%	11%	80%
Prime RMBS, originated in:										
2007	$ 109	-%	40%	5%	55%	$ 121	38%	4%	-%	58%
2006	75	-	-	-	100	75	-	-	-	100
2005	224	33	-	-	67	230	32	-	-	68
2004 and earlier	352	20	41	6	33	389	29	38	11	22
Total prime RMBS	$ 760	19%	25%	3%	53%	$ 815	28%	19%	5%	48%
Subprime RMBS, originated in:										
2007	$ 1	-%	-%	100%	-%	$ 2	-%	2%	98%	-%
2005	101	14	20	26	40	82	23	12	29	36
2004 and earlier	333	3	7	15	75	334	5	15	18	62
Total subprime RMBS	$ 435	5%	10%	18%	67%	$ 418	8%	14%	21%	57%
Commercial MBS Domestic, originated in:										
2009-2012	$ 253	92%	8%	-%	-%	$ 200	100%	-%	-%	-%
2008	24	8	92	-	-	25	16	84	-	-
2007	729	55	39	6	-	789	66	26	8	-
2006	933	83	17	-	-	892	85	15	-	-
2005	645	95	4	1	-	696	94	6	-	-
2004 and earlier	348	97	3	-	-	403	97	2	1	-
Total commercial MBS Domestic	$ 2,932	81%	18%	1%	-%	$ 3,005	84%	14%	2%	-%
Foreign covered bonds:										
Germany	$ 987	98%	2%	-%	-%	$ 1,461	99%	1%	-%	-%
Canada	929	100	-	-	-	795	100	-	-	-
United Kingdom	764	100	-	-	-	25	100	-	-	-
Netherlands	351	100	-	-	-	26	100	-	-	-
Other	845	100	-	-	-	118	100	-	-	-
Total foreign covered bonds	$ 3,876	100%	-%	-%	-%	$ 2,425	100%	-%	-%	-%
European floating rate notes available-for-sale:										
United Kingdom	$ 1,706	77%	20%	3%	-%	$ 686	72%	28%	-%	-%
Netherlands	960	100	-	-	-	47	35	65	-	-
Ireland	151	16	-	32	52	203	-	50	47	3
Italy	126	-	100	-	-	150	100	-	-	-
Australia	81	93	7	-	-	101	91	9	-	-
Germany	64	-	9	-	91	93	21	6	73	-
Spain	22	-	100	-	-	-	-	-	-	-
France	10	100	-	-	-	9	100	-	-	-
Luxembourg	-	-	-	-	-	140	-	100	-	-
Total European floating rate notes available-for-sale	$ 3,120	77%	16%	3%	4%	$ 1,429	55%	34%	11%	-%
Sovereign debt:										
United Kingdom	$ 4,884	100%	-%	-%	-%	$ 4,526	100%	-%	-%	-%
Netherlands	2,015	100	-	-	-	2,230	100	-	-	-
Germany	1,605	100	-	-	-	2,347	100	-	-	-
France	1,258	100	-	-	-	2,790	100	-	-	-
Other	55	98	2	-	-	61	97	3	-	-
Total sovereign debt	$ 9,817	100%	-%	-%	-%	$ 11,954	100%	-%	-%	-%
Alt-A RMBS *(b)*, originated in:										

2006-2007	**$ 1,155**	**-%**	**-%**	**-%**	**100%**	$ 1,042	-%	-%	-%	100%
2005	**636**	**4**	**-**	**1**	**95**	628	5	-	1	94
2004 and earlier	**221**	**-**	**2**	**13**	**85**	209	-	4	27	69
Total Alt-A RMBS *(b)*	**$ 2,012**	**1%**	**-%**	**2%**	**97%**	$ 1,879	2%	-%	3%	95%
Prime RMBS *(b)*, originated in:										
2006-2007	**$ 623**	**-%**	**-%**	**-%**	**100%**	$ 678	-%	-%	-%	100%
2005	**408**	**1**	**1**	**1**	**97**	465	-	4	-	96
2004 and earlier	**32**	**5**	**3**	**23**	**69**	32	9	-	22	69
Total prime RMBS *(b)*	**$ 1,063**	**-%**	**1%**	**1%**	**98%**	$ 1,175	-%	2%	1%	97%
Subprime RMBS *(b)*, originated in:										
2005-2007	**$ 89**	**-%**	**-%**	**-%**	**100%**	$ 88	-%	-%	-%	100%
2004 and earlier	**36**	**5**	**-**	**36**	**59**	37	5	34	-	61
Total subprime RMBS *(b)*	**$ 125**	**2%**	**-%**	**10%**	**88%**	$ 125	2%	10%	-%	88%

(a) At Sept. 30, 2012 and Dec. 31, 2011, foreign covered bonds were included in Level 1 and Level 2 in the valuation hierarchy. All other assets in the table are Level 2 assets in the valuation hierarchy.

(b) Previously included in the Grantor Trust.

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Notes to Consolidated Financial Statements (continued)

Changes in Level 3 fair value measurements

The tables below include a roll forward of the balance sheet amounts (including the change in fair value) for financial instruments classified in Level 3 of the valuation hierarchy.

Our classification of a financial instrument in Level 3 of the valuation hierarchy is based on the significance of the unobservable factors to the overall fair value measurement. However, these instruments generally include other observable

components that are actively quoted or validated to third-party sources; accordingly, the gains and losses in the table below include changes in fair value due to observable parameters as well as the unobservable parameters in our valuation methodologies. We also frequently manage the risks of Level 3 financial instruments using securities and derivatives positions that are Level 1 or 2 instruments which are not included in the table; accordingly, the gains or losses below do not reflect the effect of our risk management activities related to the Level 3 instruments.

Fair value measurements for assets using significant unobservable inputs

for three months ended Sept. 30, 2012

	Available-for-sale securities	Trading assets			
(in millions)	State and political subdivisions	Debt and equity instruments	Derivative assets *(a)*	Other assets	Total assets
Fair value at June 30, 2012	$ 42	$ 60	$ 73	$ 138	$ 313
Total gains or (losses) for the period:					
Included in earnings (or changes in net assets)	2 *(b)*	- *(c)*	(6) *(c)*	3 *(d)*	(1)
Purchases and sales:					
Purchases	-	-	1	3	4
Sales	-	(10)	-	(16)	(26)
Fair value at Sept. 30, 2012	**$ 44**	**$ 50**	**$ 68**	**$ 128**	**$ 290**
Change in unrealized gains or (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period		$ -	$ (4)	$ -	$ (4)

(a) Derivative assets are reported on a gross basis.
(b) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).
(c) Reported in foreign exchange and other trading revenue.
(d) Reported in investment and other income.

Fair value measurements for liabilities using significant unobservable inputs

for three months ended Sept. 30, 2012

Trading liabilities	Total

(in millions)	Derivative liabilities *(a)*	liabilities
Fair value at June 30, 2012	$ 302	$ 302
Total (gains) or losses for the period:		
Included in earnings (or changes in net liabilities)	(2) *(b)*	(2)
Fair value at Sept. 30, 2012	**$ 300**	**$ 300**
Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period	$ 12	$ 12

(a) Derivative liabilities are reported on a gross basis.
(b) Reported in foreign exchange and other trading revenue.

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Notes to Consolidated Financial Statements (continued)

Fair value measurements for assets using significant unobservable inputs

for three months ended Sept. 30, 2011

	Available-for-sale securities		Trading assets				
(in millions)	State and political subdivisions	Other debt securities	Debt and equity instruments	Derivative assets *(a)*	Loans	Other assets	Total assets
Fair value at June 30, 2011	$ 10	$ 66	$ 36	$ 107	$ 5	$ 116	$ 340
Transfers into Level 3	-	-	21	2	-	1	24
Transfers out of Level 3	-	(9)	-	-	-	-	(9)
Total gains or (losses):							
Included in earnings (or changes in net assets)	- *(b)*	- *(b)*	3 *(c)*	(15) *(c)*	-	3 *(d)*	(9)
Purchases, issuances, sales and settlements:							
Purchases	-	-	-	-	-	1	1
Sales	-	-	-	-	-	(6)	(6)
Fair value at Sept. 30, 2011	$ 10	$ 57	$ 60	$ 94	$ 5	$ 115	$ 341
The amount of total gains or (losses) included in earnings (or changes in net assets) attributable to the changes in unrealized gains or losses			$ 3	$ 6	$ -	$ -	$ 9

(a) Derivative assets are reported on a gross basis.

(b) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).

(c) Reported in foreign exchange and other trading revenue.

(d) Reported in investment and other income.

Fair value measurements for liabilities using significant unobservable inputs

for three months ended Sept. 30, 2011

	Trading liabilities	
(in millions)	Derivative liabilities *(a)*	Total liabilities
Fair value at June 30, 2011	$ 155	$ 155
Transfers into Level 3	1	1
Total (gains) or losses:		
Included in earnings (or changes in net liabilities)	80 *(b)*	80
Fair value at Sept. 30, 2011	$ 236	$ 236
The amount of total (gains) or losses included in earnings (or changes in net assets) attributable to the changes in unrealized gains or losses	$ 109	$ 109

(a) Derivative liabilities are reported on a gross basis.

(b) Reported in foreign exchange and other trading revenue.

Fair value measurements for assets using significant unobservable inputs for nine months ended Sept. 30, 2012

	Available-for-sale securities		Trading assets			
(in millions)	State and political subdivisions	Other debt securities	Debt and equity instruments	Derivative assets *(a)*	Other assets	Total assets
Fair value at Dec. 31, 2011	$ 45	$ 3	$ 63	$ 97	$ 157	$ 365
Total gains or (losses) for the period:						
Included in earnings (or changes in net assets)	2 *(b)*	(3) *(b)*	- *(c)*	(30) *(c)*	4 *(d)*	(27)
Purchases, sales and settlements:						
Purchases	-	-	-	1	8	9
Sales	-	-	(13)	-	(33)	(46)
Settlements	(3)	-	-	-	(8)	(11)
Fair value at Sept. 30, 2012	**$ 44**	**$ -**	**$ 50**	**$ 68**	**$ 128**	**$ 290**
Change in unrealized gains or (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period			$ -	$ (13)	$ -	$ (13)

(a) Derivative assets are reported on a gross basis.
(b) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).
(c) Reported in foreign exchange and other trading revenue.
(d) Reported in investment and other income.

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Notes to Consolidated Financial Statements (continued)

Fair value measurements for liabilities using significant unobservable inputs for nine months ended Sept. 30, 2012

(in millions)	Trading liabilities Derivative liabilities *(a)*	Total liabilities
Fair value at Dec. 31, 2011	$ 314	$ 314
Total (gains) or losses for the period: Included in earnings (or changes in net liabilities)	(14) *(b)*	(14)
Fair value at Sept. 30, 2012	**$ 300**	**$ 300**
Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period	$ 33	$ 33

(a) Derivative liabilities are reported on a gross basis.
(b) Reported in foreign exchange and other trading revenue.

Fair value measurements for assets using significant unobservable inputs for nine months ended Sept. 30, 2011

	Available-for-sale securities		Trading assets				
(in millions)	State and political subdivisions	Other debt securities	Debt and equity instruments	Derivative assets *(a)*	Loans	Other assets	Total assets
Fair value at Dec. 31, 2010	$ 10	$ 58	$ 32	$ 119	$ 6	$ 113	$ 338
Transfers into Level 3	-	8	48	5	-	1	62
Transfers out of Level 3	-	(9)	(23)	(43)	(2)	-	(77)
Total gains or (losses):							
Included in earnings (or changes in net assets)	- *(b)*	- *(b)*	3 *(c)*	14 *(c)*	-	5 *(d)*	22
Purchases, issuances, sales and settlements:							
Purchases	-	-	-	-	-	2	2
Issuances	-	-	-	-	1	-	1
Sales	-	-	-	-	-	(6)	(6)
Settlements	-	-	-	(1)	-	-	(1)
Fair value at Sept. 30, 2011	$ 10	$ 57	$ 60	$ 94	$ 5	$ 115	$ 341
The amount of total gains or (losses) included in earnings (or changes in net assets) attributable to the changes in unrealized gains or losses			$ 30	$ 10	$ -	$ -	$ 40

(a) Derivative assets are reported on a gross basis.
(b) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).
(c) Reported in foreign exchange and other trading revenue.
(d) Reported in investment and other income.

Fair value measurements for liabilities using significant unobservable inputs for nine months ended Sept. 30, 2011

	Trading liabilities			
(in millions)	Debt and equity instruments	Derivative liabilities *(a)*	Other liabilities	Total liabilities
Fair value at Dec. 31, 2010	$ 6	$ 171	$ 2	$ 179
Transfers into Level 3	-	2	-	2
Total (gains) or losses:				
Included in earnings (or changes in net liabilities)	-	76 *(b)*	(2)	74

Purchases, issuances, sales and settlements:				
Settlements	(6)	(13)	-	(19)
Fair value at Sept. 30, 2011	$ -	$ 236	$ -	$ 236
The amount of total (gains) or losses included in earnings (or changes in net assets) attributable to the changes in unrealized gains or losses	$ -	$ 119	$ -	$ 119

(a) Derivative liabilities are reported on a gross basis.

(b) Reported in foreign exchange and other trading revenue.

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Notes to Consolidated Financial Statements (continued)

Level 3 unobservable inputs

The following tables present the unobservable inputs used in valuation of assets and liabilities classified as Level 3 within the fair value hierarchy.

Quantitative information about Level 3 fair value measurements of assets

(dollars in millions)	Fair value at Sept. 30, 2012	Valuation techniques	Unobservable input	Range
Measured on a recurring basis:				
Available-for-sale securities:				
State and political subdivisions	$ 44	Discounted cash flow	Expected credit loss	8%-36%
Trading assets:				
Debt and equity instruments:				
Structured debt	30	Option pricing model *(a)*	Correlation risk	15%
			Long-term foreign exchange volatility	12%-17%
Distressed debt	20	Discounted cash flow	Expected maturity	2-10 years
			Credit spreads	200-825 bps
Derivative assets:				
Interest rate:				
Structured foreign exchange swaptions	29	Option pricing model *(a)*	Correlation risk	0%-25%
			Long-term foreign exchange volatility	12%-17%
Foreign exchange contracts:				
Long-term foreign exchange options	1	Option pricing model *(a)*	Long-term foreign exchange volatility	18%
Equity:				
Equity options	38	Option pricing model *(a)*	Long-term equity volatility	23%-32%
Measured on a nonrecurring basis:				
Loans	28	Discounted cash flows	Timing of sale	0-24 months
			Cap rate	5.5%-8.0%
			Cost to complete/sell	0%-28%

Quantitative information about Level 3 fair value measurements of liabilities

(dollars in millions)	Fair value at Sept. 30, 2012	Valuation techniques	Unobservable input	Range
Measured on a recurring basis:				
Trading liabilities:				
Derivative liabilities:				
Interest rate:				
Structured foreign exchange swaptions	$ 232	Option pricing model*(a)*	Correlation risk	0%-25%
			Long-term foreign exchange volatility	12%-17%
Equity:				
Equity options	68	Option pricing model *(a)*	Long-term equity volatility	23%-32%

(a) The option pricing model uses market inputs such as foreign currency exchange rates, interest rates and volatility to calculate the fair value of the option.

bps basis points.

At Sept. 30, 2012, the available-for-sale securities categorized as Level 3 within the fair value hierarchy primarily consist of a security issued by a municipality that has filed for bankruptcy. The fair value of this security was determined based on expected credit losses. A significant deviation from the expected credit losses would result in a significantly higher or lower fair value.

At Sept. 30, 2012, debt and equity instruments reported as trading assets on the balance sheet include structured debt and distressed debt. For our structured debt, changes in foreign exchange

volatility generally results in a higher or lower fair value, while changes in the correlation of interest and foreign exchange factors generally increases or decreases the fair value of the instrument. The principal unobservable inputs for distressed debt include credit spreads and expected maturity. Changes in credit spreads or the expected period until maturity would result in an increase or decrease in the fair value of these instruments.

At Sept. 30, 2012, our trading assets and trading liabilities included interest rate derivative assets and liabilities, respectively, and equity derivative assets

Notes to Consolidated Financial Statements (continued)

and liabilities, respectively, classified as Level 3 within the fair value hierarchy. For our structured foreign exchange swaptions, changes in foreign exchange volatility generally results in an increased or decreased liability while changes in the correlation of interest and foreign exchange factors generally results in a favorable or unfavorable movement in the fair value of the instrument. The Company purchases and sells certain long-term equity options based on changes in volatility, which in turn offset option values.

At Sept. 30, 2012, loans measured at fair value on a nonrecurring basis that are included in Level 3 of the fair value hierarchy include collateral dependent loans. Principal unobservable inputs may include forecast timing of sales, cap rates and costs to complete/sell. An increase in holding period, cap rate or costs to complete/sell would generally result in a decrease of the fair value of loans. A decrease in holding period, cap rate or costs to complete/sell

would generally result in an increase in fair value of the loans.

Assets and liabilities measured at fair value on a nonrecurring basis

Under certain circumstances, we make adjustments to fair values of our assets, liabilities and unfunded lending-related commitments although they are not measured at fair value on an ongoing basis. An example would be the recording of an impairment of an asset.

The following tables present the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy as of Sept. 30, 2012 and Dec. 31, 2011, for which a nonrecurring change in fair value has been recorded during the quarters ended Sept. 30, 2012 and Dec. 31, 2011.

Assets measured at fair value on a nonrecurring basis at Sept. 30, 2012 *(in millions)*	Level 1	Level 2	Level 3	Total carrying value
Loans *(a)*	$ -	$ 181	$ 35	$ 216
Other assets *(b)*	-	77	-	77
Total assets at fair value on a nonrecurring basis	**$ -**	**$ 258**	**$ 35**	**$ 293**

Assets measured at fair value on a nonrecurring basis at Dec. 31, 2011 *(in millions)*	Level 1	Level 2	Level 3	Total carrying value
Loans *(a)*	$ -	$ 178	$ 43	$ 221
Other assets *(b)*	-	126	-	126
Total assets at fair value on a nonrecurring basis	**$ -**	**$ 304**	**$ 43**	**$ 347**

(a) During the quarters ended Sept. 30, 2012 and Dec. 31, 2011, the fair value of these loans was increased by $2 million and decreased $32 million, respectively, based on the fair value of the underlying collateral as allowed by ASC 310, Accounting by Creditors for Impairment of a Loan, with an offset to the allowance for credit losses.

(b) Includes other assets received in satisfaction of debt and loans held for sale. Loans held for sale are carried on the balance sheet at the lower of cost or market value.

Estimated fair value of financial instruments

The carrying amounts of our financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods see Note 1 to the Consolidated Financial Statements contained in the 2011 Annual Report. The following disclosure discusses these instruments on a uniform fair value basis. However, active markets do not exist for a significant portion of these instruments. For financial instruments where quoted prices from identical assets and liabilities in active markets do not exist, we determine fair value based on discounted cash flow analysis and comparison to

similar instruments. Discounted cash flow analysis is dependent upon estimated future cash flows and the level of interest rates. Other judgments would result in different fair values. The assumptions we used at Dec. 31, 2011 and Sept. 30, 2012 include discount rates ranging principally from 0.01% to 4.95%. The fair value information supplements the basic financial statements and other traditional financial data presented throughout this report.

A summary of the practices used for determining fair value and the respective level in the valuation hierarchy for financial assets and liabilities not recorded at fair value is as follows.

Notes to Consolidated Financial Statements (continued)

Interest-bearing deposits with the Federal Reserve and other central banks and interest-bearing deposits with banks

The estimated fair value of interest-bearing deposits with the Federal Reserve and other central banks is equal to the book value as these interest-bearing deposits are generally considered cash equivalents. These instruments are classified as Level 2 within the valuation hierarchy. The estimated fair value of interest-bearing deposits with banks is generally determined using discounted cash flows and duration of the instrument to maturity. The primary inputs used to value these transactions are interest rates based on current LIBOR market rates and time to maturity. Interest-bearing deposits with banks are classified as Level 2 within the valuation hierarchy.

Federal funds sold and securities purchased under resale agreements

The estimated fair value of federal funds sold and securities purchased under resale agreements is based on inputs such as interest rates and tenors. Federal funds sold and securities purchased under resale agreements are classified as Level 2 within the valuation hierarchy.

Securities held-to-maturity

Where quoted prices are available in an active market for identical assets and liabilities, we classify the securities as Level 1 within the valuation hierarchy. Securities are defined as both long and short positions. Level 1 includes U.S. Treasury securities.

If quoted market prices are not available for identical assets and liabilities, we estimate fair value using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such instruments, which would generally be classified as Level 2 within the valuation hierarchy, include certain agency and non-agency mortgage-backed securities, commercial mortgage-backed securities and state and political subdivision securities.

For securities where quotes from active markets are not available for identical securities, we determine fair value primarily based on pricing sources with reasonable levels of price transparency that employ financial models or obtain comparison to similar instruments to arrive at consensus prices.

Specifically, the pricing sources obtain active market prices for similar types of securities (e.g., vintage, position in the securitization structure) and ascertain variables such as discount rate and speed of prepayment for the types of transaction and apply such variables to similar types of bonds. We view these as observable transactions in the current marketplace and classify such securities as Level 2 within the valuation hierarchy.

Loans

For residential mortgage loans, fair value is estimated using discounted cash flow analysis, adjusting where appropriate for prepayment estimates, using interest rates currently being offered for loans with similar terms and maturities to borrowers. The estimated fair value of margin loans and overdrafts is equal to the book value due to the short-term nature of these assets. The estimated fair value of other types of loans is determined using discounted cash flows. Inputs include current LIBOR market rates adjusted for credit spreads. These loans are generally classified as Level 2 within the valuation hierarchy.

Other financial assets

Other financial assets include cash, the Federal Reserve Bank stock and accrued interest receivable. Cash is classified as Level 1 within the valuation hierarchy. The Federal Reserve Bank stock is not redeemable or transferable. The estimated fair value of the Federal Reserve Bank stock is based on the redemption price and is classified as Level 2 within the valuation hierarchy. Accrued interest receivable is generally short-term. As a result, book value is considered to equal fair value. Accrued interest receivable is included as Level 2 within the valuation hierarchy.

Noninterest-bearing and interest-bearing deposits

Interest-bearing deposits are comprised of money market rate and demand deposits, savings deposits and time deposits. Except for time deposits, book value is considered to equal fair value for these deposits due to their short duration to maturity or payable on demand feature. The fair value of interest-bearing time deposits is determined using discounted cash flow analysis. Inputs primarily consist of current LIBOR market rates and time to maturity. For all noninterest-bearing deposits, book value is considered to equal fair value as a result of the short duration of the deposit. Interest-bearing

Notes to Consolidated Financial Statements (continued)

and noninterest-bearing deposits are classified as Level 2 within the valuation hierarchy.

Federal funds purchased and securities sold under repurchase agreements

The estimated fair value of federal funds purchased and securities sold under repurchase agreements is based on inputs such as interest rates and tenors. Federal funds purchased and securities sold under repurchase agreements are classified as Level 2 within the valuation hierarchy.

Payables to customers and broker-dealers

The estimated fair value of payables to customers and broker-dealers is equal to the book value due to demand feature of the payables to customers and broker-dealers and are classified as Level 2 within the valuation hierarchy.

Borrowings

Borrowings primarily consist of overdrafts of subcustodian account balances in our Investment Services businesses, commercial paper and accrued

interest payable. The estimated fair value of overdrafts of subcustodian account balances in our Investment Services businesses is considered to equal book value as a result of the short duration of the overdrafts. Overdrafts are typically repaid within two days. The estimated fair value of our commercial paper is based on discount and duration of the commercial paper. Our commercial paper matures within 397 days from date of issue and is not redeemable prior to maturity or subject to voluntary prepayment. Our commercial paper is included in Level 2 of the valuation hierarchy. Accrued interest payable is generally short-term. As a result, book value is considered to equal fair value. Accrued interest payable is included as Level 2 within the valuation hierarchy.

Long-term debt

The estimated fair value of long-term debt is based on current rates for instruments of the same remaining maturity or quoted market prices for the same or similar issues. Long-term debt is classified as Level 2 within the valuation hierarchy.

Summary of financial instruments	**Sept. 30, 2012**					Dec. 31, 2011	
(in millions)	**Level 1**	**Level 2**	**Level 3**	**Total estimated fair value**	**Carrying amount**	Estimated fair value	Carrying amount
Assets:							
Interest-bearing deposits with the Federal Reserve and other central banks	**$ -**	**$ 73,118**	**$ -**	**$ 73,118**	**$ 73,118**	$ 90,243	$ 90,243
Interest-bearing deposits with banks	**-**	**40,612**	**-**	**40,612**	**40,578**	36,381	36,321
Federal funds sold and securities purchased under resale agreements	**-**	**5,753**	**-**	**5,753**	**5,753**	4,510	4,510
Securities held-to-maturity	**1,076**	**7,817**	**-**	**8,893**	**8,702**	3,540	3,521
Loans	**-**	**43,239**	**-**	**43,239**	**43,073**	41,166	40,970
Other financial assets	**4,991**	**1,097**	**-**	**6,088**	**6,088**	5,336	5,336
Total	**$ 6,067**	**$ 171,636**	**$ -**	**$ 177,703**	**$ 177,312**	$ 181,176	$ 180,901
Liabilities:							
Noninterest-bearing deposits	**$ -**	**$ 78,790**	**$ -**	**$ 78,790**	**$ 78,790**	$ 95,335	$ 95,335
Interest-bearing deposits	**-**	**144,017**	**-**	**144,017**	**144,159**	123,759	123,759
Federal funds purchased and securities sold under repurchase agreements	**-**	**12,450**	**-**	**12,450**	**12,450**	6,267	6,267

Payables to customers and broker-dealers		**-**	**13,675**		**-**	**13,675**	**13,675**	12,671	12,671
Borrowings		**-**	**2,621**		**-**	**2,621**	**2,621**	2,376	2,376
Long-term debt		**-**	**20,453**		**-**	**20,453**	**19,516**	20,459	19,933
Total	**$**	**-**	**$ 272,006**	**$**	**-**	**$ 272,006**	**$ 271,211**	$ 260,867	$ 260,341

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Notes to Consolidated Financial Statements (continued)

The table below summarizes the carrying amount of the hedged financial instruments, the notional amount of the hedge and the unrealized gain (loss) (estimated fair value) of the derivatives.

Hedged financial instruments *(in millions)*	Carrying amount	Notional amount of hedge	Unrealized Gain	Unrealized (Loss)
At Sept. 30, 2012:				
Interest-bearing deposits with banks	**$ 10,409**	**$ 10,409**	**$ 22**	**$ (366)**
Securities available-for-sale	**5,614**	**5,249**	**1**	**(438)**
Deposits	**10**	**10**	**1**	**-**
Long-term debt	**15,906**	**15,042**	**1,013**	**(5)**
At Dec. 31, 2011:				
Interest-bearing deposits with banks	$ 8,789	$ 8,789	$ 441	$ (17)
Securities available-for-sale	4,354	4,009	-	(289)
Deposits	10	10	1	-
Long-term debt	15,048	14,262	964	(9)

Note 16 Fair value option

ASC 825 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments.

The following table presents the assets and liabilities, by type, of consolidated investment management funds recorded at fair value.

Assets and liabilities of consolidated investment management funds, at fair value *(in millions)*	**Sept. 30, 2012**	Dec. 31, 2011
Assets of consolidated investment management funds:		
Trading assets	**$ 10,821**	$ 10,751
Other assets	**548**	596
Total assets of consolidated investment management funds	**$ 11,369**	$ 11,347
Liabilities of consolidated investment management funds:		
Trading liabilities	**$ 10,018**	$ 10,053
Other liabilities	**28**	32
Total liabilities of consolidated investment management funds	**$ 10,046**	$ 10,085

BNY Mellon values assets in consolidated CLOs using observable market prices observed from the secondary loan market. The returns to the note holders are solely dependent on the assets and accordingly equal the value of those assets. Mark-to-market best reflects the limited interest BNY Mellon has in the economic performance of the consolidated CLOs. Changes in the values of assets and liabilities are reflected in the income statement as investment income (loss) from consolidated investment management funds.

We have elected the fair value option on $240 million of long-term debt in connection with ASC 810. At Sept. 30, 2012, the fair value of this long-term debt was $345 million. The long-term debt is valued using observable market inputs and is included in Level 2 of the ASC 820 hierarchy.

The following table presents the changes in fair value of the long-term debt included in foreign exchange and other trading revenue in the consolidated income statement.

Foreign exchange and other trading revenue

	Quarter ended		Year-to-date	
(in millions)	**Sept. 30, 2012**	Sept. 30, 2011	**Sept. 30, 2012**	Sept. 30, 2011
Long-term debt *(a)*	**$ (6)**	$ (42)	**$ (19)**	$ (52)

(a) The change in fair value of the long-term debt is approximately offset by an economic hedge included in trading.

Note 17 Derivative instruments

We use derivatives to manage exposure to market risk, interest rate risk, credit risk and foreign currency risk. Our trading activities are focused on acting as a market-maker for our customers and facilitating customer trades. In addition, we periodically manage positions for our own account. Positions managed for our own account are immaterial to our foreign exchange and other trading revenue and to our overall results of operations.

The notional amounts for derivative financial instruments express the dollar volume of the transactions; however, credit risk is much smaller. We perform credit reviews and enter into netting agreements to minimize the credit risk of derivative

Notes to Consolidated Financial Statements (continued)

financial instruments. We enter into offsetting positions to reduce exposure to foreign exchange, interest rate and equity risk.

Use of derivative financial instruments involves reliance on counterparties. Failure of a counterparty to honor its obligation under a derivative contract is a risk we assume whenever we engage in a derivative contract. There were no counterparty default losses in the third quarter of 2012 or 2011.

Hedging derivatives

We utilize interest rate swap agreements to manage our exposure to interest rate fluctuations. For hedges of investment securities available-for-sale, deposits and long-term debt, the hedge documentation specifies the terms of the hedged items and the interest rate swaps and indicates that the derivative is hedging a fixed rate item and is a fair value hedge, that the hedge exposure is to the changes in the fair value of the hedged item due to changes in benchmark interest rates, and that the strategy is to eliminate fair value variability by converting fixed-rate interest payments to LIBOR.

The investment securities available-for-sale hedged consist of sovereign debt and U.S. Treasury bonds that had original maturities of 30 years or less at initial purchase. The swaps on the sovereign debt and U.S. Treasury bonds are not callable. All of these securities are hedged with pay fixed rate, receive variable rate swaps of similar maturity, repricing and fixed rate coupon. At Sept. 30, 2012, $5.0 billion face amount of securities were hedged with interest rate swaps that had notional values of $5.2 billion.

The hedged fixed rate deposits have original maturities of approximately ten years and are not callable. These deposits are hedged with receive fixed rate, pay variable rate swaps of similar maturity, repricing and fixed rate coupon. The swaps are not callable. At Sept. 30, 2012, $10 million face amount of deposits were hedged with interest rate swaps that had notional values of $10 million.

The fixed rate long-term debt instruments hedged generally have original maturities of five to 30 years. We issue both callable and non-callable debt. The non-callable debt is hedged with simple interest rate swaps similar to those described for deposits. Callable debt is hedged with callable swaps where the call

dates of the swaps exactly match the call dates of the debt. At Sept. 30, 2012, $15 billion par value of debt was hedged with interest rate swaps that had notional values of $15 billion.

In addition, we enter into foreign exchange hedges. We use forward foreign exchange contracts with maturities of nine months or less to hedge our British Pound, Euro and Indian Rupee foreign exchange exposure with respect to foreign currency forecasted revenue and expense transactions in entities that have the U.S. dollar as their functional currency. As of Sept. 30, 2012, the hedged forecasted foreign currency transactions and designated forward foreign exchange contract hedges were $150 million (notional), with $4.1 million of pre-tax gain recorded in accumulated other comprehensive income. This gain will be reclassified to income or expense over the next nine months.

We use forward foreign exchange contracts with remaining maturities of nine months or less as hedges against our foreign exchange exposure to Australian Dollar, Euro, Swedish Krona, British Pound, Norwegian Krone and Japanese Yen with respect to interest-bearing deposits with banks and their associated forecasted interest revenue. These hedges are designated as cash flow hedges. These hedges are effected such that their maturities and notional values match those of the deposits with banks. As of Sept. 30, 2012, the hedged interest-bearing deposits with banks and their designated forward foreign exchange contract hedges were $10.4 billion (notional), with a pre-tax gain of less than $1 million recorded in accumulated other comprehensive income. This gain will be reclassified to net interest revenue over the next nine months.

Forward foreign exchange contracts are also used to hedge the value of our net investments in foreign subsidiaries. These forward foreign exchange contracts usually have maturities of less than two years. The derivatives employed are designated as hedges of changes in value of our foreign investments due to exchange rates. Changes in the value of the forward foreign exchange contracts offset the changes in value of the foreign investments due to changes in foreign exchange rates. The change in fair market value of these forward foreign exchange contracts is deferred and reported within accumulated translation adjustments in shareholders equity, net of tax. At Sept. 30, 2012, forward foreign exchange contracts with notional amounts totaling $5.2 billion were designated as hedges.

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Notes to Consolidated Financial Statements (continued)

In addition to forward foreign exchange contracts, we also designate non-derivative financial instruments as hedges of our net investments in foreign subsidiaries. Those non-derivative financial instruments designated as hedges of our net investments in foreign subsidiaries were all long-term liabilities of BNY Mellon in various currencies, and, at Sept. 30, 2012, had a combined U.S. dollar equivalent value of $506 million.

Ineffectiveness related to derivatives and hedging relationships was recorded in income as follows:

Ineffectiveness	**Nine months ended**	
(in millions)	**Sept. 30, 2012**	Sept. 30, 2011
Fair value hedge of securities	**$ (1.7)**	$ (5.1)
Fair value hedge of deposits and long-term debt	**(7.3)**	(2.6)
Fair value hedge of loans	**-**	0.1
Cash flow hedges	**0.1**	(0.1)
Other *(a)*	**(0.1)**	(0.1)
Total	**$ (9.0)**	$ (7.8)

(a) *Includes ineffectiveness recorded on foreign exchange hedges.*

Impact of derivative instruments on the balance sheet

	Notional value		Asset derivatives fair value		Liability derivatives fair value	
(in millions)	**Sept. 30, 2012**	Dec. 31, 2011	**Sept. 30, 2012**	Dec. 31, 2011	**Sept. 30, 2012**	Dec. 31, 2011
Derivatives designated as hedging instruments *(a)***:**						
Interest rate contracts	**$ 20,301**	$ 18,281	**$ 1,019**	$ 965	**$ 443**	$ 298
Foreign exchange contracts	**15,786**	14,160	**152**	635	**367**	21
Total derivatives designated as hedging instruments			**$ 1,171**	$ 1,600	**$ 810**	$ 319
Derivatives not designated as hedging instruments *(b)***:**						
Interest rate contracts	**$ 860,735**	$ 975,308	**$ 24,123**	$ 26,652	**$ 24,952**	$ 27,440
Equity contracts	**11,003**	8,205	**370**	418	**473**	330
Credit contracts	**176**	333	**-**	3	**-**	-
Foreign exchange contracts	**407,843**	379,235	**2,918**	4,632	**2,905**	4,355
Total derivatives not designated as hedging instruments			**$ 27,411**	$ 31,705	**$ 28,330**	$ 32,125
Total derivatives fair value *(c)*			**$ 28,582**	$ 33,305	**$ 29,140**	$ 32,444
Effect of master netting agreements *(d)*			**(23,370)**	(26,047)	**(22,395)**	(25,009)
Fair value after effect of master netting agreements			**$ 5,212**	$ 7,258	**$ 6,745**	$ 7,435

(a) *The fair value of asset derivatives and liability derivatives designated as hedging instruments is recorded as other assets and other liabilities, respectively, on the balance sheet.*
(b) *The fair value of asset derivatives and liability derivatives not designated as hedging instruments is recorded as trading assets and trading liabilities, respectively, on the balance sheet.*
(c) *Fair values are on a gross basis, before consideration of master netting agreements, as required by ASC 815.*
(d) *Master netting agreements are reported net of cash collateral received and paid of $1,293 million and $318 million, respectively, at Sept. 30, 2012, and $1,269 million and $231 million, respectively at Dec. 31, 2011.*

At Sept. 30, 2012, $443 billion (notional) of interest rate contracts will mature within one year, $224 billion between one and five years, and $214 billion after five years. At Sept. 30, 2012, $408 billion (notional) of foreign exchange contracts will mature within one year, $8 billion between one and five years, and $8 billion after five years.

Impact of derivative instruments on the income statement

(in millions)

Derivatives in fair value hedging relationships	Location of gain or (loss) recognized in income on derivatives	Gain or (loss) recognized in income on derivatives			Location of gain or (loss) recognized in income on hedged item	Gain or (loss) recognized in hedged item		
		3Q12	2Q12	3Q11		**3Q12**	2Q12	3Q11
Interest rate contracts	Net interest revenue	**$ 36**	$ (249)	$ 25	Net interest revenue	**$ (44)**	$ 248	$ (25)

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Notes to Consolidated Financial Statements (continued)

Derivatives in cash flow hedging relationships	Gain or (loss) recognized in accumulated OCI on derivatives (effective portion) 3Q12	2Q12	3Q11	Location of gain or (loss) reclassified from accumulated OCI into income (effective portion)	Gain or (loss) reclassified from accumulated OCI into income (effective portion) 3Q12	2Q12	3Q11	Location of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) 3Q12	2Q12	3Q11
FX contracts	**$ -**	$ 9	$ 4	Net interest revenue	**$ -**	$ 8	$ (42)	Net interest revenue	**$ -**	$ -	$ -
FX contracts	**3**	(1)	2	Other revenue	**1**	(1)	(1)	Other revenue	**-**	-	-
FX contracts	**(707)**	(338)	(237)	Trading revenue	**(707)**	(338)	(237)	Trading revenue	**-**	-	-
FX contracts	**-**	1	(1)	Salary expense	**-**	-	1	Salary expense	**-**	-	-
Total	**$ (704)**	$ (329)	$ (232)		**$ (706)**	$ (331)	$ (279)		**$ -**	$ -	$ -

Derivatives in net investment hedging relationships	Gain or (loss) recognized in accumulated OCI on derivatives (effective portion) 3Q12	2Q12	3Q11	Location of gain or (loss) reclassified from accumulated OCI into income (effective portion)	Gain or (loss) reclassified from accumulated OCI into income (effective portion) 3Q12	2Q12	3Q11	Location of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) 3Q12	2Q12	3Q11
FX contracts	**$ (133)**	$ 110	$ 219	Net interest revenue	**$ -**	$ -	$ -	Other revenue	**$ -**	$ -	$ -

Impact of derivative instruments on the income statement

(in millions)

Derivatives in fair value hedging relationships	Location of gain or (loss) recognized in income on derivatives	Gain or (loss) recognized in income on derivatives Nine months ended Sept. 30, 2012	Sept. 30, 2011	Location of gain or (loss) recognized in income on hedged item	Gain or (loss) in hedged item Nine months ended Sept. 30, 2012	Sept. 30, 2011
Interest rate contracts	Net interest revenue	**$ (86)**	$ 42	Net interest revenue	**$ 77**	$ (49)

Derivatives in cash	Gain or (loss) recognized in accumulated OCI	Location of gain or (loss) reclassified from accumulated OCI into income (effective portion)	Gain or (loss) reclassified from accumulated OCI into income (effective portion)	Location of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from	Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount

flow hedging relationships	on derivatives (effective portion) Nine months ended			Nine months ended		effectiveness testing)	excluded from effectiveness testing) Nine months ended	
	Sept. 30, 2012	Sept. 30, 2011		**Sept. 30, 2012**	Sept. 30, 2011		**Sept. 30, 2012**	Sept. 30, 2011
FX contracts	**$ 7**	$ (57)	Net interest revenue	**$ 4**	$ (104)	Net interest revenue	**$ -**	$ -
FX contracts	**5**	(6)	Other revenue	**2**	(4)	Other revenue	**0.1**	(0.1)
FX contracts	**(703)**	(568)	Trading revenue	**(703)**	(568)	Trading revenue	**-**	-
FX contracts	**-**	3	Salary expense	**(1)**	2	Salary expense	**-**	-
Total	**$ (691)**	$ (628)		**$ (698)**	$ (674)		**$ 0.1**	$ (0.1)

Derivatives in net investment hedging relationships	Gain or (loss) recognized in accumulated OCI on derivatives (effective portion) Nine months ended		Location of gain or (loss) reclassified from accumulated OCI into income (effective portion)	Gain or (loss) reclassified from accumulated OCI into income (effective portion) Nine months ended		Location of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) Nine months ended	
	Sept. 30, 2012	Sept. 30, 2011		**Sept. 30, 2012**	Sept. 30, 2011		**Sept. 30, 2012**	Sept. 30, 2011
FX contracts	**$ (162)**	$ 39	Net interest revenue	**$ -**	$ -	Other revenue	**$ (0.1)**	$ (0.1)

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Trading activities (including trading derivatives)

We manage trading risk through a system of position limits, a VaR methodology based on Monte Carlo simulations, stop loss advisory triggers, and other market sensitivity measures. Risk is monitored and reported to senior management by a separate unit on a daily basis. Based on certain assumptions, the VaR methodology is designed to capture the potential overnight pre-tax dollar loss from adverse changes in fair values of all trading positions. The calculation assumes a one-day holding period for most instruments, utilizes a 99% confidence level, and incorporates the non-linear characteristics of options. The VaR model is one of several statistical models used to develop economic capital results, which is allocated to lines of business for computing risk-adjusted performance.

As the VaR methodology does not evaluate risk attributable to extraordinary financial, economic or other occurrences, the risk assessment process includes a number of stress scenarios based upon the risk factors in the portfolio and management s assessment of market conditions. Additional stress scenarios based upon historic market events are also performed. Stress tests, by their design, incorporate the impact of reduced liquidity and the breakdown of observed correlations. The results of these stress tests are reviewed weekly with senior management.

Revenue from foreign exchange and other trading included the following:

Foreign exchange and other trading revenue

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

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

Foreign exchange includes income from purchasing and selling foreign currencies and currency forwards, futures, and options. Fixed income reflects results from futures and forward contracts, interest rate swaps, foreign currency swaps, options, and fixed income securities. Credit derivatives/other primarily include revenue from credit default swaps

and income from equity securities and equity derivatives.

Counterparty credit risk and collateral

We assess credit risk of our counterparties through regular examination of their financial statements, confidential communication with the management of those counterparties and regular monitoring of publicly available credit rating information. This and other information is used to develop proprietary credit rating metrics used to assess credit quality.

Collateral requirements are determined after a comprehensive review of the credit quality of each counterparty. Collateral is generally held or pledged in the form of cash or highly liquid government securities. Collateral requirements are monitored and adjusted daily.

Additional disclosures concerning derivative financial instruments are provided in Note 15 of the Notes to Consolidated Financial Statements.

Disclosure of contingent features in over-the-counter (OTC) derivative instruments

Certain OTC derivative contracts and/or collateral agreements of The Bank of New York Mellon, our largest banking subsidiary and the subsidiary through which BNY Mellon enters into the substantial majority of all of its OTC derivative contracts and/or collateral agreements, contain provisions that may require us to take certain actions if The Bank of New York Mellon s public debt rating fell to a certain level. Early termination provisions, or close-out agreements, in those contracts could trigger immediate payment of outstanding contracts that are in net liability positions. Certain collateral agreements would require The Bank of New York Mellon to immediately post additional collateral to cover some or all of The Bank of New York Mellon s liabilities to a counterparty.

The following table shows the fair value of contracts falling under early termination provisions that were in net liability positions as of Sept. 30, 2012 for three key ratings triggers:

Notes to Consolidated Financial Statements (continued)

If The Bank of New York Mellon s rating was changed to (Moody s/S&P)	**Potential close-out exposures (fair value)** *(a)*
A3/A-	$ **930** million
Baa2/BBB	$ **1,168** million
Bal/BB+	$ **2,721** million

(a) The change between rating categories is incremental, not cumulative.

Additionally, if The Bank of New York Mellon s debt rating had fallen below investment grade on Sept. 30, 2012, existing collateral arrangements would have required us to have posted an additional $683 million of collateral.

Note 18 Commitments and contingent liabilities

In the normal course of business, various commitments and contingent liabilities are outstanding which are not reflected in the accompanying consolidated balance sheets.

Our significant trading and off-balance sheet risks are foreign currency and interest rate risk management products, commercial lending commitments, letters of credit, securities lending indemnifications and support agreements. We assume these risks to reduce interest rate and foreign currency risks, to provide customers with the ability to meet credit and liquidity needs and to hedge foreign currency and interest rate risks. These items involve, to varying degrees, credit, foreign exchange, and interest rate risk not recognized in the balance sheet. Our off-balance sheet risks are managed and monitored in manners similar to those used for on-balance sheet risks. Significant industry concentrations related to credit exposure at Sept. 30, 2012 are disclosed in the Financial institutions portfolio exposure table and the Commercial portfolio exposure table below.

Financial institutions portfolio exposure		**Sept. 30, 2012**	
(in billions)	**Loans**	**Unfunded commitments**	**Total exposure**
Banks	**$ 6.3**	**$ 2.1**	**$ 8.4**
Securities industry	**3.2**	**2.1**	**5.3**
Asset managers	**1.1**	**3.6**	**4.7**
Insurance	**0.2**	**4.4**	**4.6**
Government	**-**	**1.7**	**1.7**
Other	**0.2**	**1.3**	**1.5**
Total	**$ 11.0**	**$ 15.2**	**$ 26.2**

Commercial portfolio exposure		**Sept. 30, 2012**	
(in billions)	**Loans**	**Unfunded commitments**	**Total exposure**
Manufacturing	**$ 0.4**	**$ 5.4**	**$ 5.8**
Energy and utilities	**0.2**	**5.4**	**5.6**
Services and other	**0.5**	**5.0**	**5.5**
Media and telecom	**0.1**	**1.6**	**1.7**
Total	**$ 1.2**	**$ 17.4**	**$ 18.6**

Major concentrations in securities lending are primarily to broker-dealers and are generally collateralized with cash. Securities lending transactions are discussed below.

The following table presents a summary of our off-balance sheet credit risks, net of participations.

Off-balance sheet credit risks

(in millions)	**Sept. 30, 2012**	Dec 31, 2011
Lending commitments *(a)*	**$ 29,459**	$ 28,406
Standby letters of credit *(b)*	**6,675**	6,707
Commercial letters of credit	**281**	437
Securities lending indemnifications	**259,416**	268,812
Support agreements	**-**	63

(a) Net of participations totaling $465 million at Sept. 30, 2012 and $326 million at Dec. 31, 2011.
(b) Net of participations totaling $917 million at Sept. 30, 2012 and $1.2 billion at Dec. 31, 2011.

Included in lending commitments are facilities that provide liquidity for variable rate tax-exempt securities wrapped by monoline insurers. The credit approval for these facilities is based on an assessment of the underlying tax-exempt issuer and considers factors other than the financial strength of the monoline insurer.

The total potential loss on undrawn lending commitments, standby and commercial letters of credit, and securities lending indemnifications is equal to the total notional amount if drawn upon, which does not consider the value of any collateral.

Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements. A summary of lending commitment maturities is as follows: $8.4 billion less than one year, $20.8 billion in one to five years, and $250 million over five years.

Standby letters of credit (SBLC) principally support corporate obligations. As shown in the off-balance sheet credit risks table, the maximum potential exposure of SBLCs was $6.7 billion at

Notes to Consolidated Financial Statements (continued)

Sept. 30, 2012 and $6.7 billion at Dec. 31, 2011, and includes $688 million and $485 million that were collateralized with cash and securities at Sept. 30, 2012 and Dec. 31, 2011, respectively. At Sept. 30, 2012, approximately $4.2 billion of the SBLCs will expire within one year and $2.5 billion in one to five years.

We must recognize, at the inception of standby letters of credit and foreign and other guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required by ASC 460 *Guarantees*, the fair value of the liability, which was recorded with a corresponding asset in other assets, was estimated as the present value of contractual customer fees.

The estimated liability for losses related to these commitments and SBLCs, if any, is included in the allowance for lending-related commitments. The allowance for lending-related commitments was $117 million at Sept. 30, 2012 and $103 million at Dec. 31, 2011.

Payment/performance risk of SBLCs is monitored using both historical performance and internal ratings criteria. BNY Mellon s historical experience is that SBLCs typically expire without being funded. SBLCs below investment grade are monitored closely for payment/performance risk. The table below shows SBLCs by investment grade:

Standby letters of credit	**Sept. 30, 2012**	Dec. 31, 2011
Investment grade	**92%**	91%
Noninvestment grade	**8%**	9%

A commercial letter of credit is normally a short-term instrument used to finance a commercial contract for the shipment of goods from a seller to a buyer. Although the commercial letter of credit is contingent upon the satisfaction of specified conditions, it represents a credit exposure if the buyer defaults on the underlying transaction. As a result, the total contractual amounts do not necessarily represent future cash requirements. Commercial letters of credit totaled $281 million at Sept. 30, 2012 compared with $437 million at Dec. 31, 2011.

A securities lending transaction is a fully collateralized transaction in which the owner of a security agrees to lend the security (typically through an agent, in our case, The Bank of New York Mellon), to a borrower, usually a broker-dealer

or bank, on an open, overnight or term basis, under the terms of a prearranged contract, which normally matures in less than 90 days.

We typically lend securities with indemnification against borrower default. We generally require the borrower to provide cash collateral with a value of 102% of the fair value of the securities borrowed, which is monitored on a daily basis, thus reducing credit risk. Market risk can also arise in securities lending transactions. These risks are controlled through policies limiting the level of risk that can be undertaken. Securities lending transactions are generally entered into only with highly rated counterparties. Securities lending indemnifications were secured by collateral of $267 billion at Sept. 30, 2012 and $276 billion at Dec. 31, 2011.

At Sept. 30, 2012, BNY Mellon had no exposure to support agreements, after deducting the reserve. This compares with $63 million at Dec. 31, 2011.

Trust activities

As a result of the Global Investment Servicing acquisition, at Sept. 30, 2012, our clients maintained approximately $430 million of custody cash on deposit with other institutions. Revenue generated from these balances is included in investment and other income on the income statement. The transition of these deposits to BNY Mellon is expected to be substantially complete in 2012.

Indemnification Arrangements under Ordinary Course Contracts

We have provided standard representations for underwriting agreements, acquisition and divestiture agreements, sales of loans and commitments, and other similar types of arrangements and customary indemnification for claims and legal proceedings related to providing financial services that are not otherwise included above. Insurance has been purchased to mitigate certain of these risks. Generally, there are no stated or notional amounts included in these indemnifications and the contingencies triggering the obligation for indemnification are not expected to occur. Furthermore, often counterparties to these transactions provide us with comparable indemnifications. We are unable to develop an estimate of the maximum payout under these indemnifications for several reasons. In addition to the lack of a stated or notional amount in a majority of such indemnifications, we are unable to predict the nature of events that would trigger indemnification or the level of indemnification for a certain event. We believe, however, that the possibility that we will have to make any material payments for these indemnifications is remote. At Sept. 30, 2012 and Dec. 31, 2011, we have not recorded any material liabilities under these arrangements.

Clearing and Settlement Exchanges

We are a minority equity investor in, and member of, several industry clearing or settlement exchanges through which foreign exchange, securities, or other transactions settle. Certain of these industry clearing or settlement exchanges require their members to guarantee their obligations and liabilities or to provide financial support in the event other members do not honor their obligations. We believe the likelihood that a clearing or settlement exchange (of which we are a member) would become insolvent is remote. Additionally, certain settlement exchanges have implemented loss allocation policies which enable the exchange to allocate settlement losses to the members of the exchange. It is not possible to quantify such mark-to-market loss until the loss occurs. In addition, any ancillary costs that occur as a result of any mark-to-market loss cannot be quantified. At Sept. 30, 2012 and Dec. 31, 2011, no material liabilities were recorded under these arrangements.

Legal proceedings

In the ordinary course of business, BNY Mellon and its subsidiaries are routinely named as defendants in or made parties to pending and potential legal actions and regulatory matters. Claims for significant monetary damages are often asserted in many of these legal actions, while claims for disgorgement, penalties and/or other remedial sanctions may be sought in regulatory matters. It is inherently difficult to predict the eventual outcomes of such matters given their complexity and the particular facts and circumstances at issue in each of these matters. However, on the basis of our current knowledge and understanding, we do not believe that judgments or settlements, if any, arising from these matters (either individually or in the aggregate, after giving effect to applicable reserves and insurance coverage) will have a material adverse effect on the consolidated financial position or liquidity of BNY Mellon, although they could have a material effect on net income in a given period.

In view of the inherent unpredictability of outcomes in litigation and regulatory matters, particularly where (i) the damages sought are substantial or indeterminate, (ii) the proceedings are in the early stages, or (iii) the matters involve novel legal theories or a large number of parties, as a matter of course there is considerable uncertainty surrounding the timing or ultimate resolution of litigation and regulatory matters, including a possible eventual loss, fine, penalty or business impact, if any, associated with each such matter. In accordance with applicable accounting guidance, BNY Mellon establishes reserves for litigation and regulatory matters when those matters proceed to a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. BNY Mellon will continue to monitor such matters for developments that could affect the amount of the reserve, and will adjust the reserve amount as appropriate. If the loss contingency in question is not both probable and reasonably estimable, BNY Mellon does not establish a reserve and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. BNY Mellon believes that its accruals for legal proceedings are appropriate and, in the aggregate, are not material to the consolidated financial position of BNY Mellon, although future accruals could have a material effect on net income in a given period.

For certain of those matters described herein for which a loss contingency may, in the future, be reasonably possible (whether in excess of a related accrued liability or where there is no accrued liability), BNY Mellon is currently unable to estimate a range of reasonably possible loss. For those matters where BNY Mellon is able to estimate a reasonably possible loss, exclusive of matters described in Note 11 of the Notes to Consolidated Financial Statements, subject to the accounting and reporting requirements of ASC 740 (FASB Interpretation 48), the aggregate range of such reasonably possible loss is up to $750 million in excess of the accrued liability (if any) related to those matters.

The following describes certain judicial, regulatory and arbitration proceedings involving BNY Mellon:

Notes to Consolidated Financial Statements (continued)

Sentinel Matters

As previously disclosed, on Jan. 18, 2008, The Bank of New York Mellon filed a proof of claim in the Chapter 11 bankruptcy proceeding of Sentinel Management Group, Inc. (Sentinel) pending in federal court in the Northern District of Illinois, seeking to recover approximately $312 million loaned to Sentinel and secured by securities and cash in an account maintained by Sentinel at The Bank of New York Mellon. On March 3, 2008, the bankruptcy trustee filed an adversary complaint against The Bank of New York Mellon seeking to disallow The Bank of New York Mellon s claim and seeking damages for allegedly aiding and abetting Sentinel insiders in misappropriating customer assets and improperly using those assets as collateral for the loan. In a decision dated Nov. 3, 2010, the court found for The Bank of New York Mellon and against the bankruptcy trustee, holding that The Bank of New York Mellon s loan to Sentinel is valid, fully secured and not subject to equitable subordination. The bankruptcy trustee appealed this decision, and on August 9, 2012, the United States Court of Appeals for the Seventh Circuit issued a decision affirming the trial court s judgment. On September 7, 2012, the bankruptcy trustee filed a petition for rehearing.

As previously disclosed, in November 2009, the Division of Enforcement of the U.S. Commodities Futures Trading Commission (CFTC) indicated that it is considering a recommendation to the CFTC that it file a civil enforcement action against The Bank of New York Mellon for possible violations of the Commodity Exchange Act and CFTC regulations in connection with its relationship to Sentinel. The Bank of New York Mellon responded in writing to the CFTC on Jan. 29, 2010 and provided an explanation as to why an enforcement action is unwarranted.

Securities Lending Matters

As previously disclosed, BNY Mellon or its affiliates have been named as defendants in a number of lawsuits initiated by participants in BNY Mellon s securities lending program, which is a part of BNY Mellon s Investment Services business. The lawsuits were filed on various dates from December 2008 to 2012, and are currently pending in courts in New York, South Carolina and North Carolina and in commercial court in London. The complaints assert contractual, statutory, and common law claims, including claims for negligence and breach of fiduciary duty. The plaintiffs allege losses in connection with the

investment of securities lending collateral, including losses related to investments in Sigma Finance Inc. (Sigma), Lehman Brothers Holdings, Inc. and certain asset-backed securities, and seek damages as to those losses. Two of the pending cases seek to proceed as class actions.

On Oct. 25, 2012, the court entered final approval of a previously-announced settlement of the Oklahoma class action lawsuit concerning Sigma losses. Under the terms of the settlement, The Bank of New York Mellon agreed to pay $280 million in exchange for a complete release of claims in the class action.

Matters Relating To Bernard L. Madoff

As previously disclosed, on May 11, 2010, the New York State Attorney General commenced a civil lawsuit against Ivy Asset Management LLC (Ivy), a subsidiary of BNY Mellon that manages primarily funds-of-hedge-funds, and two of its former officers in New York state court. The lawsuit alleges that Ivy, in connection with its role as sub-advisor to investment managers whose clients invested with Madoff, did not disclose certain material facts about Madoff. The complaint seeks an accounting of compensation received from January 1997 to the present by the Ivy defendants in connection with the Madoff investments, and unspecified damages, including restitution, disgorgement, costs and attorneys fees.

As previously disclosed, on Oct. 21, 2010, the U.S. Department of Labor commenced a civil lawsuit against Ivy, two of its former officers, and others in federal court in the Southern District of New York. The lawsuit alleges that Ivy violated the Employee Retirement Income Security Act (ERISA) by failing to disclose certain material facts about Madoff to investment managers subadvised by Ivy whose clients included employee benefit plan investors. The complaint seeks disgorgement and damages. On Dec. 8, 2010, the Trustee overseeing the Madoff liquidation sued many of the same defendants in bankruptcy court in New York, seeking to avoid withdrawals from Madoff investments made by various funds-of-funds (including six funds-of-funds managed by Ivy).

As previously disclosed, Ivy or its affiliates have been named in a number of civil lawsuits filed beginning Jan. 27, 2009 relating to certain investment funds that allege losses due to the Madoff investments. Ivy acted as a sub-advisor to

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Notes to Consolidated Financial Statements (continued)

the investment managers of some of those funds. Plaintiffs assert various causes of action including securities and common-law fraud. Certain of the cases have been certified as class actions and/or assert derivative claims on behalf of the funds. Most of the cases have been consolidated in two actions in federal court in the Southern District of New York, with certain cases filed in New York State Supreme Court for New York and Nassau counties.

Medical Capital Litigations

As previously disclosed, The Bank of New York Mellon has been named as a defendant in a number of class actions and non-class actions brought by numerous plaintiffs in connection with its role as indenture trustee for debt issued by affiliates of Medical Capital Corporation. The actions, filed in late 2009 and currently pending in federal court in the Central District of California, allege that The Bank of New York Mellon breached its fiduciary and contractual obligations to the holders of the underlying securities, and seek unspecified damages. On June 7, 2012, The Bank of New York Mellon reached a conditional settlement with the Federal Equity Receiver for Medical Capital Corporation and its affiliates. The plaintiffs have opposed the settlement with the Receiver. They challenge the Receiver s authority to bind them to any settlement, and allege that the settlement is inadequate.

Foreign Exchange Matters

As previously disclosed, beginning in December 2009, government authorities have been conducting inquiries seeking information relating primarily to standing instruction foreign exchange transactions in connection with custody services BNY Mellon provides to public pension plans and certain other custody clients. BNY Mellon is cooperating with these inquiries.

In addition, in early 2011, as previously disclosed, the Virginia Attorney General s Office and the Florida Attorney General s Office each filed a Notice of Intervention in a *qui tam* lawsuit pending in its jurisdiction. These offices filed complaints superseding the *qui tam* lawsuits on Aug. 11, 2011. On May 1, 2012, the Virginia court dismissed the lawsuit in its entirety. On July 10, 2012, the Virginia Attorney General s office filed a motion seeking leave of the court to file an amended complaint. On Oct. 4, 2011, the New York Attorney General s Office, the New York City Comptroller and various city pension and benefit funds filed a lawsuit whereby, among other things, the plaintiffs assert claims under the Martin Act and state and city

false claims acts. Also, on Oct. 4, 2011, the United States Department of Justice (DOJ) filed a civil lawsuit seeking civil penalties under 12 U.S.C. Section 1833a and injunctive relief under 18 U.S.C. Section 1345 based on alleged ongoing violations of 18 U.S.C. Sections 1341 and 1343 (mail and wire fraud). On Jan. 17, 2012, the court approved a partial settlement resolving the DOJ s claim for injunctive relief. In October 2011, several political subdivisions of the state of California intervened in a *qui tam* lawsuit pending in California state court, previously under seal, and, on Nov. 28, 2011, BNY Mellon removed the lawsuit to federal district court in California. On March 30, 2012, the court dismissed certain of plaintiffs claims, including all claims under the California False Claims Act, and provided plaintiffs an opportunity to file a motion seeking leave to replead. Several plaintiffs also had their claims dismissed for improper venue and one refiled on Sept. 5, 2012 in a different California federal district court. On Oct. 26, 2011, the Massachusetts Securities Division filed an Administrative Complaint against BNY Mellon.

BNY Mellon has also been named as a defendant in several putative class action federal lawsuits filed on various dates in 2011. The complaints, which assert varying claims, including breach of contract, and violations of ERISA, state and federal law, all allege that the prices BNY Mellon charged and reported for standing instruction foreign exchange transactions executed in connection with custody services provided by BNY Mellon were improper. In addition, BNY Mellon has been named as a nominal defendant in several derivative lawsuits filed on various dates in 2011 and 2012 in state and federal court in New York. BNY Mellon has also been named as a defendant in a lawsuit filed on March 12, 2012 in Ohio state court, and subsequently removed to federal district court in Ohio, asserting claims including breach of contract and fraud. BNY Mellon was also named in a *qui tam* lawsuit originally filed under seal in October 2009 in Massachusetts state court, but the plaintiff voluntarily dismissed the lawsuit on May 16, 2012. To the extent these lawsuits are pending in federal court, they have been consolidated for pre-trial purposes in federal court in New York.

Lyondell Litigation

As previously disclosed, in an action filed in New York State Supreme Court for New York County, on Sept. 14, 2010, plaintiffs as holders of debt issued by Basell AF in 2005 allege that The Bank of New York Mellon, as indenture trustee, breached its

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Notes to Consolidated Financial Statements (continued)

contractual and fiduciary obligations by executing an intercreditor agreement in 2007 in connection with Basell s acquisition of Lyondell Chemical Company. Plaintiffs are seeking damages for their alleged losses resulting from the execution of the 2007 intercreditor agreement that allowed the company to increase the amount of its senior debt.

Tax Litigation

As previously disclosed, on Aug. 17, 2009, BNY Mellon received a Statutory Notice of Deficiency disallowing tax benefits for the 2001 and 2002 tax years in connection with a 2001 transaction that involved the payment of U.K. corporate income taxes that were credited against BNY Mellon s U.S. corporate income tax liability. On Nov. 10, 2009, BNY Mellon filed a petition with the U.S. Tax Court contesting the disallowance of the benefits. Trial was held from April 16 to May 17, 2012. The aggregate tax benefit for all six years in question is approximately $900 million, including interest. In the event BNY Mellon is unsuccessful in defending its position, the IRS has agreed not to assess underpayment penalties. See Note 11 of the Notes to Consolidated Financial Statements for additional information.

Mortgage-Securitization Trusts Proceeding

As previously disclosed, The Bank of New York Mellon as trustee is the petitioner in a legal proceeding filed in New York State Supreme Court, New York County on June 29, 2011, seeking approval of a proposed settlement involving Bank of America Corporation and bondholders in certain Countrywide residential mortgage-securitization trusts. The New York and Delaware Attorneys General have intervened in this proceeding.

Note 19 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.

Business results are subject to reclassification whenever improvements are made in the measurement principles, or when organizational changes are made.

The accounting policies of the businesses are the same as those described in Note 1 of the Notes to Consolidated Financial Statements in BNY Mellon s 2011 Annual Report.

The operations of acquired businesses are integrated with the existing businesses soon after they are completed. As a result of the integration of staff support functions, management of customer relationships, operating processes and the financial impact of funding acquisitions, we cannot precisely determine the impact of acquisitions on income before taxes and therefore do not report it.

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Notes to Consolidated Financial Statements (continued)

The primary types of revenue for two principal businesses and the Other segment are presented below:

Business	**Primary types of revenue**
Investment Management	Investment management and performance fees from: Mutual funds Institutional clients Private clients High-net-worth individuals and families, endowments and foundations and related entities Distribution and servicing fees
Investment Services	Asset servicing fees, including institutional trust and custody fees, broker-dealer services and securities lending Issuer services fees, including Corporate Trust and Depositary Receipts Clearing services fees, including broker-dealer services, registered investment advisor services and prime brokerage services Treasury services fees, including global payment services and working capital solutions Foreign exchange
Other segment	Credit-related activities Leasing operations Corporate treasury activities Global markets and institutional banking services Business exits

The results of our businesses are presented and analyzed on an internal management reporting basis:

- Revenue amounts reflect fee and other revenue generated by each business. Fee and other revenue transferred between businesses under revenue transfer agreements is included within other revenue in each business.
- Revenues and expenses associated with specific client bases are included in those businesses. For example, foreign exchange activity associated with clients using custody products is allocated to Investment Services.
- Net interest revenue is allocated to businesses based on the yields on the assets and liabilities generated by each business. We employ a funds transfer pricing system that matches funds with the specific assets and liabilities of each business based on their interest sensitivity

and maturity characteristics.
Support and other indirect expenses are allocated to businesses based on internally-developed methodologies.
Recurring FDIC expense is allocated to the businesses based on average deposits generated within each business.
Litigation expense is generally recorded in the business in which the charge occurs.
Management of the investment securities portfolio is a shared service contained in the Other segment. As a result, gains and losses associated with the valuation of the securities portfolio are included in the Other segment.
Client deposits serve as the primary funding source for our investment securities portfolio. We typically allocate all interest revenue to the businesses generating the deposits. Accordingly, accretion related to the restructured investment securities portfolio has been included in the results of the businesses.
Restructuring charges are related to corporate initiatives and are therefore recorded in the Other segment.
M&I expenses are corporate level items and are therefore recorded in the Other segment.
Balance sheet assets and liabilities and their related income or expense are specifically assigned to each business. Businesses with a net liability position have been allocated assets.
Goodwill and intangible assets are reflected within individual businesses.

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Notes to Consolidated Financial Statements (continued)

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

For the quarter ended Sept. 30, 2012

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

(a) Total fee and other revenue includes income from consolidated investment management funds of $47 million, net of noncontrolling interests of $25 million, for a net impact of $22 million. Income before taxes includes noncontrolling interests of $25 million.

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

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

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

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

For the quarter ended Sept. 30, 2011

(dollar amounts in millions)	**Investment Management**	**Investment Services**	**Other**	**Consolidated**
Fee and other revenue	$ 757 *(a)*	$ 2,028	$ 121	$ 2,906 *(a)*
Net interest revenue	51	661	63	775
Total revenue	808	2,689	184	3,681
Provision for credit losses	-	-	(22)	(22)

Noninterest expense	675	1,898	198	2,771
Income (loss) before taxes	$ 133 *(a)*	$ 791	$ 8	$ 932 *(a)*
Pre-tax operating margin *(b)*	16%	29%	N/M	25%
Average assets	$ 36,949	$ 220,930	$ 53,584	$ 311,463

(a) Total fee and other revenue includes income from consolidated investment management funds of $32 million, net of noncontrolling interests of $13 million, for a net impact of $19 million. Income before taxes includes noncontrolling interests of $13 million.

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

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Notes to Consolidated Financial Statements (continued)

For the nine months ended Sept. 30, 2012

(dollar amounts in millions)	Investment Management	Investment Services	Other	Consolidated
Fee and other revenue	**$ 2,585** *(a)*	**$ 5,612**	**$ 428**	**$ 8,625** *(a)*
Net interest revenue	**159**	**1,857**	**232**	**2,248**
Total revenue	**2,744**	**7,469**	**660**	**10,873**
Provision for credit losses	**-**	**(2)**	**(17)**	**(19)**
Noninterest expense	**2,049**	**5,755**	**704**	**8,508**
Income (loss) before taxes	**$ 695** *(a)*	**$ 1,716**	**$ (27)**	**$ 2,384** *(a)*
Pre-tax operating margin *(b)*	**25%**	**23%**	**N/M**	**22%**
Average assets	**$ 36,071**	**$ 215,991**	**$ 56,397**	**$ 308,459**

(a) Total fee and other revenue includes income from consolidated investment management funds of $147 million, net of noncontrolling interests of $65 million, for a net impact of $82 million. Income before taxes includes noncontrolling interests of $65 million.

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

For the nine months ended Sept. 30, 2011

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

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

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

Note 20 Supplemental information to the Consolidated Statement of Cash Flows

Noncash investing and financing transactions that, appropriately, are not reflected in the Consolidated Statement of Cash Flows are listed below.

Noncash investing and financing transactions *(in millions)*	Nine months ended Sept. 30, 2012	2011
Transfers from loans to other assets for OREO	**$ 6**	$ 11
Assets of consolidated VIEs	**22**	2,703
Liabilities of consolidated VIEs	**39**	2,912
Noncontrolling interests of consolidated VIEs	**111**	11

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Item 4. Controls and Procedures

Disclosure controls and procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, with participation by the members of the Disclosure Committee, has responsibility for ensuring that there is an adequate and effective process for establishing, maintaining, and evaluating disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in our SEC reports is timely recorded, processed, summarized and reported and that information required to be disclosed by BNY Mellon is accumulated and communicated to BNY Mellon s management to allow timely decisions regarding the required disclosure. In addition, our ethics hotline can also be used by employees and others for the anonymous communication of concerns about financial controls or reporting matters. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in internal control over financial reporting

In the ordinary course of business, we may routinely modify, upgrade or enhance our internal controls and procedures for financial reporting. There have not been any changes in our internal controls over financial reporting as defined in Rule 13a-15(f) of the Exchange Act during the third quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Forward-looking Statements

Some statements in this document are forward-looking. These include all statements about the future results of BNY Mellon; our financial goals and strategies; areas of our business expected to be impacted by the current market environment; the impact of changes in the value of market indices; and factors affecting the performance of our businesses. In addition, these forward-looking statements relate to: the usefulness of Non-GAAP measures; estimated Basel III capital ratios; our expectations regarding the impact of Hurricane Sandy; expectations regarding our foreign exchange revenue; expectations regarding legal and litigation costs; expectations regarding our operational excellence initiatives, including our annualized targeted savings by the end of 2012; expectations regarding our tax rate and the impact of the expiration of the active financing deferral provision; expectations regarding the seasonality impact on our business; estimations of market value impact on fee revenue and earnings per share; statements with respect to our tri-party repo business; expectations regarding the impact of the run-off of structured debt markets on our total annual revenue; impact of significant changes in ratings classifications for our investment securities portfolio; assumptions with respect to residential mortgage-backed securities; goals with respect to our commercial portfolio; effects of changes in projected loss severities and default rates on impairment charges; statements on our credit strategies; statements regarding our leasing portfolio; estimates of provisions for credit losses; the effect of credit ratings on allowances, estimates and cash flow models; statements regarding our liquidity cushion, liquidity ratios, liquidity asset buffer and potential uses of liquidity; statements regarding a reduction in our Investment Services businesses; statements with respect to our liquidity policy; access to capital markets and our shelf registration statements; the impact of a change in rating agencies assumptions on ratings of the Parent, The Bank of New York Mellon and BNY Mellon, N.A.; expectations with respect to capital, including anticipated redemptions or other actions with regard to outstanding securities; expectations regarding dividends on preferred stock; statements regarding the capitalization status of BNY Mellon and its bank subsidiaries; our plans to repurchase shares of common stock; statements regarding our balance sheet size and client deposit levels; assumptions with respect to the effects of changes in risk-weighted assets on capital ratios; estimations and assumptions on net interest revenue and net interest rate sensitivities; statements about our earnings simulation model; impact of certain events

on the growth or contraction of deposits, our assumptions about depositor behavior, our balance sheet and net interest revenue; timing and impact of adoption of recently issued and proposed accounting standards; the timing and effects of pending and proposed legislation and regulation, including the Dodd-Frank Act; the Federal Reserve s proposed rules regarding enhanced prudential standards and early remediation requirements; the Federal Reserve s and FDIC s implementation of its resolution planning rules; regulatory stress-testing requirements; the Federal Reserve s rules regarding its comprehensive capital analysis and review; the Volcker rule; proposed rules removing references to credit ratings; statements regarding our implementation of recommendations of the Tri-Party Repo Infrastructure Reform Task Force; our expectations and statements regarding the NPRs, Basel II and Basel III requirements and the impact on our capital ratios; statements regarding the impact of being identified as a G-SIB or D-SIB; the timing of the capital disclosure requirements; the implementation of IFRS; our ability to compete and our investment in technology; BNY Mellon s anticipated actions with respect to legal or regulatory proceedings; future litigation costs, the expected outcome and the impact of judgments and settlements, if any, arising from pending or potential legal or regulatory proceedings and BNY Mellon s expectations with respect to litigation accruals and statements regarding the share repurchase program.

In this report, any other report, any press release or any written or oral statement that BNY Mellon or its executives may make, words such as estimate, forecast, project, anticipate, confident, target, expect, intend, seek, believe, plan, goal, could, should, n trends and words of similar meaning, signify forward-looking statements.

Forward-looking statements, including discussions and projections of future results of operations and discussions of future plans contained in the Management s Discussion and Analysis, are based on management s current expectations and assumptions that involve risk and uncertainties and that are subject to change based on various important factors (some of which are beyond BNY Mellon s control), including adverse changes in market conditions, and the timing of such changes, and the actions that management could take in response to these changes. Actual results may differ materially from those expressed or implied as a result of a

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Forward-looking Statements (continued)

number of factors, including those discussed in the Risk Factors section of BNY Mellon s Annual Report on Form 10-K for the year ended Dec. 31, 2011, BNY Mellon s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and Item 1A in this Form 10-Q, such as: uncertainty in financial markets and weakness in the economy; disruptions in European economies, or the failure or instability of any of our significant counterparties in Europe; continued market volatility; write-downs of financial instruments that we own or other losses related to volatile or illiquid market conditions; adverse publicity, regulatory actions or litigation with respect to us, other well-known companies and the financial services industry generally; government regulation and supervision, and associated limitations on our ability to pay dividends or make other capital distributions; recent legislative and regulatory actions; low or volatile interest rates and its impact on money market fund sponsors; changes to deposit insurance premiums; the level of regulation applicable to, and the costs associated therewith of, our competitors, the degree of consolidation and the breadth of products and services offerings of companies in the financial services industry and the ability of BNY Mellon to distinguish itself from its competitors; declines in capital markets on our fee-based businesses; stable exchange-rate environment and declines in cross-border activity; dependence on consistent execution of fee-based services that we perform; the failure to successfully integrate strategic acquisitions; the failure or instability of any of our significant counterparties, and our assumption of credit and counterparty risk; changes to credit ratings; supervisory standards; access to capital markets;

monetary policy and other governmental regulations; failures relating to operational risk and circumvention of controls and procedures; disruption or breaches in security of our information systems that results in a loss of confidential client information or impacts our ability to provide services to our clients; dependence on technology and intellectual property; global operations and regulation; acts of terrorism and global conflicts; risks relating to new lines of business; attracting and retaining employees; tax and accounting laws and regulations; inadequate credit reserves; risks associated with being a holding company including our dependence on dividends from our subsidiary banks; the impact of provisions of Delaware law and the Federal Reserve on our ability to pay dividends; anti-takeover provisions in our certificate of incorporation and bylaws, the impact of continued litigation and regulatory investigations and proceedings involving our foreign exchange standing instruction program and the credit, regulatory and reputation risks as a result of our tri-party repo agent services. Investors should consider all risks in BNY Mellon s Annual Report on Form 10-K for the year ended Dec. 31, 2011, BNY Mellon s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and Item 1A in this Form 10-Q and any subsequent reports filed with the SEC by BNY Mellon pursuant to the Exchange Act.

All forward-looking statements speak only as of the date on which such statements are made, and BNY Mellon undertakes no obligation to update any statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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Part II Other Information

Item 1. Legal Proceedings

The information required by this Item is set forth in the Legal proceedings section in Note 18 of the Notes to Consolidated Financial Statements, which portion is incorporated herein by reference in response to this item.

Item 1A. Risk Factors

The following discussion supplements the discussion of risk factors that could affect our business, financial condition or results of operations set forth in Part I, Item 1A, Risk Factors, on pages 21 through 35 of our Form 10-K for the year ended Dec. 31, 2011 and pages 121-122 of our Form 10-Q for the quarter ended June 30, 2012. The discussion of Risk Factors, as so supplemented, sets forth our most significant risk factors that could affect our business, financial condition or results of operations. However, other factors, besides those discussed below or in Item 1A of our Form 10-K for the year ended Dec. 31, 2011 or our Form 10-Q for the quarter ended June 30, 2012 or other of our reports filed with or furnished to the SEC, also could adversely affect our business or results. We cannot assure you that the risk factors described below or elsewhere in this report and such other reports address all potential risks that we may face. These risk factors also serve to describe factors which may cause our results to differ materially from those described in forward-looking statements included herein or in other documents or statements that make reference to this Form 10-Q. See Forward-looking Statements.

Tri-Party Repo Business We have credit, regulatory and reputation risks as a result of our tri-party repo agent services, which could adversely affect our business and results of operations.

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

Providing these tri-party repo agent services to dealers and cash investors involves credit risk at certain points in time. To facilitate the tri-party repo market, we extend secured intraday credit to dealers. In the event of a default by a dealer to whom we have extended secured intraday credit, we would be at risk for the market value of the collateral securing such intraday credit, and to the defaulting dealer for any shortfall after the liquidation of such collateral, which could adversely affect our results of operations. Once a tri-party trade settles, however, BNY Mellon is no longer exposed to that dealer default risk.

BNY Mellon is working to reduce significantly the secured intraday credit we provide. We have implemented several measures in that regard, including: (1) a later day unwind for most maturing tri-party repos to reduce the time of our exposure; (2) an auto collateral exchange process that allows dealers to replace pledged collateral by first over-collateralizing with cash; and (3) a three-way trade confirmation process known as automated deal matching to ensure accuracy and transparency. These efforts are consistent with the recommendations reported on May 17, 2010 by the Tri-Party Repo Infrastructure Reform Task Force that was sponsored by the Payments Risk Committee of the Federal Reserve Bank of New York and included representatives from a diverse group of market participants, including BNY Mellon. Additionally, beginning in early 2013, we expect that eligibility for intraday credit associated with tri-party repo transactions will be limited to certain more liquid asset classes that will result in a reduction of exposures secured by less liquid forms of collateral by dealers.

We anticipate that the combination of these measures will have reduced risks substantially in our tri-party repo activity in the near term and, together with technology enhancements currently in development will achieve the practical elimination of intraday credit in this activity, by the end of 2014. We believe the steps we are taking are responsive to recent concerns voiced publicly by regulators that dealers and investors should reduce reliance on intraday credit provided by their tri-party repo agents and make risk management practices more resilient to a stress event in the tri-party repo market. We anticipate that regulators will continue to monitor the actions of market participants and use available supervisory tools to encourage constructive and timely action to reduce sources of risk in the tri-party market. Failure to meet regulatory expectations could result in regulatory and reputation risk and additional costs.

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Part II Other Information (continued)

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table discloses repurchases of our common stock made in the third quarter of 2012. All of the Company s preferred stock outstanding has preference over the Company s common stock with respect to the payment of dividends.

Issuer purchases of equity securities

Share repurchases in the third quarter of 2012

(dollars in millions, except per share information; common shares in thousands)	Total shares repurchased	Average price per share	Total shares repurchased as part of publicly announced plans	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
During the month of:				
July 2012	6,016	$ 21.07	6,000	$ 747
August 2012	6,503	21.55	6,500	607
September 2012	907	23.55	900	586
Third quarter 2012	**13,426***(a)*	**$ 21.47**	**13,400**	**$ 586***(b)*

(a) Includes shares purchased at a purchase price of approximately $1 million from employees, primarily in connection with the employees payment of taxes upon the vesting of restricted stock.

(b) On March 13, 2012, the Board of Directors authorized a new stock purchase program providing for the repurchase of an aggregate of $1.16 billion of common stock. The share repurchase program may be executed through open market purchases or privately negotiated transactions at such prices, times and upon such other terms as may be determined from time to time.

Item 6. Exhibits

Pursuant to the rules and regulations of the Securities and Exchange Commission, BNY Mellon has filed certain agreements as exhibits to this Quarterly Report on Form 10-Q. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent

developments, which may not be fully reflected in our public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof and should not be relied upon.

The list of exhibits required to be filed as exhibits to this report are listed on page 124 hereof, under Index to Exhibits , which is incorporated herein by reference.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE BANK OF NEW YORK MELLON CORPORATION

(Registrant)

Date: November 8, 2012

By: /s/ John A. Park
John A. Park
Corporate Controller
(Duly Authorized Officer and
Principal Accounting Officer of
the Registrant)

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Index to Exhibits

Exhibit No.	Description	Method of Filing
2.1	Amended and Restated Agreement and Plan of Merger, dated as of Dec. 3, 2006, as amended and restated as of Feb. 23, 2007, and as further amended and restated as of March 30, 2007, between The Bank of New York Company, Inc., Mellon Financial Corporation and The Bank of New York Mellon Corporation (the Company).	Previously filed as Exhibit 2.1 to the Company s Current Report on Form 8-K (File Nos. 000-52710 and 001-06152) as filed with the Commission on July 2, 2007, and incorporated herein by reference.
2.2	Stock Purchase Agreement, dated as of Feb. 1, 2010, by and between The PNC Financial Services Group, Inc. and The Bank of New York Mellon Corporation.	Previously filed as Exhibit 2.1 to the Company s Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on Feb. 3, 2010, and incorporated herein by reference.
3.1	Restated Certificate of Incorporation of The Bank of New York Mellon Corporation.	Previously filed as Exhibit 3.1 to the Company s Current Report on Form 8-K (File Nos. 000-52710 and 001-06152) as filed with the Commission on July 2, 2007, and incorporated herein by reference.
3.2	Certificate of Designations of The Bank of New York Mellon Corporation with respect to Series A Noncumulative Preferred Stock dated June 15, 2007.	Previously filed as Exhibit 4.1 to the Company s Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on July 5, 2007, and incorporated herein by reference.
3.3	Certificate of Designations of The Bank of New York Mellon Corporation with respect to Series C Noncumulative Perpetual Preferred Stock dated Sept. 13, 2012.	Previously filed as Exhibit 3.2 to the Company s Registration Statement on Form 8A12B (File No. 001-35651) as filed with the Commission on Sept. 14, 2012, and incorporated herein by reference.
3.4	Amended and Restated By-Laws of The Bank of New York Mellon Corporation, as amended and restated on Oct. 12, 2010.	Previously filed as Exhibit 3.2 to the Company s Annual Report on Form 10-K (File No. 000-52710) for the year ended Dec. 31, 2010, as filed with the Commission on Feb. 28, 2011, and incorporated herein by reference.
4.1	None of the instruments defining the rights of holders of long-term debt of the Parent or any of its subsidiaries represented long-term debt in excess of 10% of the total assets of the Company as of	N/A

Sept. 30, 2012. The Company hereby agrees to furnish to the Commission, upon request, a copy of any such instrument.

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Index to Exhibits (continued)

Exhibit No.	Description	Method of Filing
4.2	Deposit Agreement, dated as of Sept. 17, 2012 by and among The Bank of New York Mellon Corporation, Computershare Shareowner Services LLC, as depositary, and the holders from time to time of the depositary receipts described therein.	Previously filed as Exhibit 4.1 to the Company s Current Report on Form 8-K (File No. 001-35651) as filed with the Commission on Sept. 18, 2012, and incorporated herein by reference.
10.1	Stipulation of Settlement.	Previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on July 6, 2012, and incorporated herein by reference.
12.1	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend.	Filed herewith.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
101.INS	XBRL Instance Document.	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith.